PRESIDENT'S REQUEST FOR EXTENSION OF FAST TRACK TRADE AGREEMENT IMPLEMENTING AUTHORITY

HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

MARCH 12 AND APRIL 11, 1991

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CONTENTS

Page

Press releases of March 7 and April 4, 1991, announcing the hearings 2

WITNESSES

United States Trade Representative, Ambassador Carla A. Hills 16

American Federation of Labor and Congress of Industrial Organizations, Thomas R. Donahue 95
Business Roundtable, Kay R. Whitmore 122
Eastman Kodak Co., Kay R. Whitmore 122
Emergency Committee for American Trade, Joseph E. Mullaney 150
Gephardt, Hon. Richard A., a Representative in Congress from the State of Missouri, Majority Leader, U.S. House of Representatives 61
Gillette Co., Joseph E. Mullaney 150
Harris Corp., John T. Hartley 132
Hettinga Equipment, Inc., Jeanine Hettinga 142
International Union, United Automobile, Aerospace and Agricultural Implement Workers of America, Owen Bieber 104
National Association of Manufacturers, John T. Hartley 132
U.S. Chamber of Commerce, Jeanine Hettinga 142

SUBMISSIONS FOR THE RECORD

American Textile Manufacturers Institute, statement 176
Birdsong, Robert T., Jr., Glynsong Holding Co., Denver, CO, letter 229
Bye, James E., Holme Roberts & Owen, Denver, CO, joint statement and attachment 238
Callahan, Earle R., Coronado, CA, letter 188
Community Nutrition Institute, Eric Christensen and Rodney E. Leonard, joint statement and attachments 189
Distilled Spirits Council of the United States, Inc., F.A. Meister, letter and attachments 205
Elliott, David J., Procter & Gamble Co., letter 250
EnviroMD, Tucson, AZ, Steven Pike, M.D., letter and attachment 214
Financial Services Network, Inc., Denver, CO, Jeffrey D. Hill, letter 222
Fraser Institute, Vancouver, BC, Canada, Michael A. Walker, letter and attachments 223
Glynsong Holding Co., Denver, CO, Robert T. Birdsong, Jr., letter 229
Harris, Charles R., Phoenix, AZ, letter and attachments 231
Hill, Jeffrey D.:
  Financial Services Network, Inc., Denver, CO, letter 222
  Hispanic Chamber of Commerce, Inc., Denver, CO, joint letter 237
Hispanic Chamber of Commerce, Inc., Denver, CO, Ronald Montoya and Jeffrey D. Hill, joint letter 237
Holme Roberts & Owen, Denver, CO, James E. Bye and Eric D. Miller, joint statement and attachment 238
Kleinhans, Robert J., Tile Council of America, Inc., Princeton, NJ, statement and attachments 252
Leonard, Rodney E., Community Nutrition Institute, joint statement and attachments 189
Litzinger, Richard, Whirlpool Corp., joint statement 271
Meister, F.A., Distilled Spirits Council of the United States, Inc., letter and attachments 205

Page

Miller, Eric D., Holme Roberts & Owen, Denver, CO, joint statement and attachment 238
Montoya, Ronald, Hispanic Chamber of Commerce, Inc., Denver, CO, joint letter 237
Pike, Steven, M.D., EnviroMD, Tucson, AZ, letter and attachment 214
Procter & Gamble Co., David J. Elliott, letter 250
Takacs, Andy, Whirlpool Corp., joint statement 271
Tile Council of America, Inc., Princeton, NJ, Robert J. Kleinhans, statement and attachments 252
Union Pacific Railroad Co., Omaha, NE, Michael H. Walsh, letter 261
United Food and Commercial Workers International Union, AFL–CIO, William H. Wynn, statement 263
Walker, Michael A., Fraser Institute, Vancouver, BC, Canada, letter and attachments 223
Walsh, Michael H., Union Pacific Railroad Co., Omaha, NE, letter 261
Whirlpool Corp., Andy Takacs and Richard Litzinger, joint statement 271
Wynn, William H., United Food and Commercial Workers International Union, AFL–CIO, statement 263

PRESIDENT'S REQUEST FOR EXTENSION OF FAST TRACK TRADE AGREEMENT IMPLEMENTING AUTHORITY

TUESDAY, MARCH 12, 1991

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The committee met, pursuant to notice, at 11:05 a.m., in room 1100, Longworth House Office Building, Hon. Dan Rostenkowski (chairman of the committee) presiding.

[The press releases announcing the hearings follow:]

FOR IMMEDIATE RELEASE
THURSDAY, MARCH 7, 1991

PRESS RELEASE #3
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-3625

THE HONORABLE DAN ROSTENKOWSKI (D., ILL.), CHAIRMAN, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A HEARING ON THE MARCH 1, 1991, REQUEST OF THE PRESIDENT FOR EXTENSION OF FAST TRACK TRADE AGREEMENT IMPLEMENTING AUTHORITY

The Honorable Dan Rostenkowski (D., Ill.), Chairman of the Committee on Ways and Means, U.S. House of Representatives, today announced a hearing to consider the request of the President submitted to the Congress on March 1, 1991, for an extension of so-called fast track procedures for implementing bills with respect to trade agreements entered into under sections 1102(b) or (c) of the Omnibus Trade and Competitiveness Act of 1988. The hearing will be held on Tuesday, March 12, 1991, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 11:00 a.m.

Unless the House of Representatives or the Senate passes a disapproval resolution before June 1, 1991, the fast track procedures would be automatically extended for agreements entered into during the two-year period ending on June 1, 1993. The current authority expires on May 31, 1991. This authority would be applicable to multilateral or bilateral trade agreements, including the completion of the Uruguay Round of GATT multilateral trade negotiations and the proposed North American free trade agreement.

The U.S. Trade Representative, Ambassador Carla A. Hills, will be the sole witness at this hearing. Further hearings to receive testimony from private sector witnesses will be announced at a later date.

* * * * * * * * * * *

FOR IMMEDIATE RELEASE
THURSDAY, APRIL 4, 1991

PRESS RELEASE #7
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-1721

THE HONORABLE DAN ROSTENKOWSKI (D., ILL.), CHAIRMAN, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A CONTINUATION OF THE HEARING ON THE PRESIDENT'S REQUEST FOR EXTENSION OF FAST TRACK TRADE AGREEMENT IMPLEMENTING AUTHORITY

The Honorable Dan Rostenkowski (D., Ill.), Chairman of the Committee on Ways and Means, U.S. House of Representatives, today announced a continuation of the hearing to consider the request of the President submitted to the Congress on March 1, 1991, for an extension of so-called fast track procedures for implementing bills with respect to trade agreements entered into under sections 1102(b) or (c) of the Omnibus Trade and Competitiveness Act of 1988 after May 31, 1991, and before June 1, 1993. The hearing will be held on Thursday, April 11, 1991, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.

This hearing is a continuation of the Committee's hearing held on March 12, 1991, at which the U.S. Trade Representative, the Honorable Carla A. Hills, testified on behalf of the Administration (see Committee press release #3, dated March 7, 1991).

Testimony will be received on April 11 from the Honorable Richard A. Gephardt, Majority Leader, U.S. House of Representatives, and from the following witnesses invited from the private sector:

PANEL:

American Federation of Labor and Congress of Industrial Organizations (AFL-CIO):
Thomas R. Donahue, Secretary-Treasurer, AFL-CIO

International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW):
Owen Bieber, President

United Food and Commercial Workers International Union:
William H. Wynn, President

PANEL:

The Business Roundtable:
Kay R. Whitmore, Chairman, The Business Roundtable Working Group on U.S.-Mexico Trade and Investment, and Chairman, President and Chief Executive Officer, Eastman Kodak Company

National Association of Manufacturers:
John T. Hartley, Chairman of the Board, and Chairman, President and Chief Executive Officer, Harris Corporation

U.S. Chamber of Commerce:
Jeanine Hettinga, President and Chief Executive Officer, Hettinga Equipment, Inc.

Emergency Committee for American Trade:
Joseph E. Mullaney, Vice Chairman of the Board, The Gillette Company

(MORE)

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Any interested person or organization may file written comments for inclusion in the printed record of the hearing. Persons submitting written comments for the printed record should submit at least six (6) copies of their comments by the close of business Friday, April 19, 1991, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing a written statement for the record of the printed hearing wish to have their statement distributed to the press and the interested public at the hearing, they may provide 75 additional copies for this purpose to the Committee office, room 1102 Longworth House Office Building, prior to the start of the public hearing.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

* * * * * * * * * * *

Chairman ROSTENKOWSKI. Good morning. This morning the committee will receive testimony from Ambassador Carla Hills on the President's March 1 request for an extension of fast-track authority. The President is seeking such authority to continue the Uruguay round negotiations, to pursue a North American Free-Trade Agreement with Mexico and Canada, and possibly to begin negotiations under his Enterprise for the Americas Initiative.

Under the rules of the House and Senate, fast-track authority would be extended automatically for a 2-year period unless a disapproval resolution is passed by either the House or the Senate by June 1. A disapproval resolution, House Resolution 101, was introduced by Congressman Dorgan on March 6 and referred jointly to the Committee on Ways and Means and the Committee on Rules. Both committees must report this resolution by May 15 in order for a vote to occur on the House floor.

Ambassador Hills, I think you know that you have your work cut out for you. As I told the President in a letter on March 7, in which I was joined by Senator Bentsen, obtaining an extension of fast-track authority is not going to be easy. A number of members, including several free trade oriented members of this committee have approached me with strong reservations about the wisdom of pursuing a free-trade agreement with Mexico at this time. They fear that pursuing highly controversial negotiations with Mexico would jeopardize the fast-track authority for the Uruguay round.

I must admit I share this concern. In our letter to the President, Senator Bentsen and I urged the administration to provide us with an action plan by May 1 outlining what the administration intends to address—such important issues as workers' rights, environmental standards, and health and safety standards. These issues need to be addressed if a free-trade agreement with Mexico has any chance of being accepted in the Congress.

The administration's action plan will be carefully scrutinized as we deliberate on the President's fast-track authority request. I hope it is responsive to the concerns that I have expressed.

Ambassador Hills, you have never been one to shy away from a tough fight. I have been very proud of the way that you have stood up for the United States' economic interests in the Uruguay round. I recognize that we have a long way to go to achieve a successful outcome in the round, but I believe that ultimately you will be successful.

But let me caution you, Madam Ambassador, that I, and other members of this committee, need to be convinced that all the initiatives for which the administration is seeking fast-track authority are in the United States' best economic interest. Ultimately each of these initiatives will be judged on whether they create jobs, promote economic growth, and enhance wages in the United States.

Before calling on Ambassador Hills, do any of my colleagues have an opening statement?

Mr. Schulze.

Mr. SCHULZE. Mr. Chairman, I just ask unanimous consent to place in the record my opening statement and a letter to the President that I have sent to him in response to his initiative.

Chairman ROSTENKOWSKI. Without objection, it is so ordered.

[The opening statement and an attachment follow:]

STATEMENT OF THE HONORABLE DICK SCHULZE
COMMITTEE ON WAYS AND MEANS, MARCH 12, 1991

THANK YOU, MR. CHAIRMAN. I COMMEND YOU FOR PROVIDING THIS VENUE FOR A FRANK EXCHANGE BETWEEN OUR LEAD TRADE NEGOTIATOR AND COMMITTEE MEMBERS, ON THE DELICATE TOPIC OF FAST-TRACK NEGOTIATING AUTHORITY. I ALSO WELCOME AMBASSADOR HILLS TO YET ANOTHER APPEARANCE BEFORE THIS COMMITTEE.

WHILE I HAVE NOT YET PUBLICLY COMMITTED TO SUPPORTING OR OPPOSING AN EXTENSION OF FAST-TRACK, I FEEL STRONGLY THAT THE EUROPEAN COMMUNITY OFFERED NOTHING OF SUCH GREAT SUBSTANCE IN THE AREA OF AGRICULTURE THAT THE U.S. SHOULD HAVE FELT COMPELLED TO HURRY BACK TO THE NEGOTIATING TABLE.

IN FACT, THE ONLY THING THE COMMUNITY SEEMS TRULY SERIOUS ABOUT IS ITS EFFORT TO BRING TO FRUITION ITS CROWNING ACHIEVEMENT IN THE WORLD TRADING ORDER: A STIFLING AND TRADE-IMPEDING WALL OF PROTECTION AROUND THE EUROPEAN CONTINENT BY THE END OF 1992. LEST WE FORGET THAT, DESPITE THE GATT PROCESS, MOST OF THE E.C.'S ATTENTION IS STILL FOCUSED ON E.C. '92, AND THE INCREASED LEVERAGE VIS-A-VIS ITS TRADING PARTNERS THAT THE COMMUNITY STANDS TO GAIN AS A RESULT.

THE CLOSER E.C. '92 COMES TO FRUITION, THE MORE IMMUTABLE THE COMMUNITY WILL BECOME IN GATT NEGOTIATIONS . . . AS HARD AS THAT MAY BE TO IMAGINE! IF WE THINK THE COMMUNITY WAS INTRANSIGENT AND UNCOMPROMISING ON AGRICULTURE AND OTHER ISSUES IN LAST DECEMBER'S BRUSSELS MINISTERIAL, JUST WAIT UNTIL THE NEXT SUCH GATHERING IN DECEMBER 1992!

AS I HAVE ALSO MADE MY OTHER GATT-RELATED CONCERNS WELL KNOWN THROUGH MEETINGS WITH THE AMBASSADOR AND A LENGTHY AND DETAILED MARCH 4TH LETTER TO PRESIDENT BUSH, I WILL SIMPLY SUMMARIZE THOSE CONCERNS, AND ASK FOR THE CHAIRMAN'S PERMISSION TO HAVE MY LETTER TO THE PRESIDENT INCLUDED IN THE COMMITTEE RECORD.

FIRST, WE MUST INTENSIFY EFFORTS TO SECURE STRONG ANTI-CIRCUMVENTION, THIRD COUNTRY DUMPING AND REPEAT OFFENDER PENALTIES IN THE GATT ANTIDUMPING AND SUBSIDIES CODES. ALSO, WE MUST DEFEAT PROPOSALS THAT WOULD LEAD TO DAMAGING CHANGES IN HOW THE COMMERCE DEPARTMENT CALCULATES DUMPING MARGINS, AND THAT WOULD CAUSE THE AUTOMATIC TERMINATION - OR "SUNSETTNG" - OF ANTIDUMPING AND COUNTERVAILING DUTIES, REGARDLESS WHETHER THE DUMPING OR SUBSIDIZATION PERSISTS!

IN THE AREA OF DISPUTE SETTLEMENT, I SUPPORT ADOPTION OF AN IMPROVED MECHANISM THAT WILL PROVIDE FOR TIMELY DECISIONS, AND A PREDICTABLE, YET NOT CUMBERSOME, APPEALS PROCESS.

REGRETTABLY, SOME OF OUR TRADING PARTNERS SEE THE DISPUTE SETTLEMENT PROCESS AS A WAY OF CIRCUMVENTING U.S. NATIONAL TRADE LAWS. I WILL NOT SUPPORT ANY DISPUTE SETTLEMENT AGREEMENT THAT HINDERS U.S. INDUSTRY'S ABILITY TO SEEK U.S. GOVERNMENT ACTION THROUGH THE APPLICATION OF SECTION 301 AND OUR ANTIDUMPING AND COUNTERVAILING DUTY LAWS. INDEED, THERE MUST BE A CLAUSE IN THE NEW DISPUTE SETTLEMENT AGREEMENT STATING EXPLICITLY THAT THIS WILL NOT BE THE CASE.

IN THE INTELLECTUAL PROPERTY AREA, WE MUST EXPAND THE "TRIPs" NEGOTIATIONS TO ADDRESS THE PATENT HARMONIZATION ISSUE. U.S. EXPORTERS DO NOT SUFFER ONLY WHEN ADEQUATE AND EFFECTIVE INTELLECTUAL PROPERTY PROTECTION IS NOT PROVIDED FOR THEIR PATENTED PRODUCTS. THEY ALSO LOSE BILLIONS OF DOLLARS IN POTENTIAL TRADE AT THE HANDS OF NATIONS WHO USE THEIR PATENT APPLICATION REVIEW PROCESSES TO PREVENT OR DELAY THE ISSUANCE OF NECESSARY PATENTS.

THE WORLD INTELLECTUAL PROPERTY ORGANIZATION - OR "WIPO" - IS TRYING TO ADDRESS THE DAMAGING EFFECTS OF THE LACK OF PATENT HARMONIZATION, BUT THEN "WIPO" HAS NO TEETH AND NO DISPUTE SETTLEMENT MECHANISM. THE PUSH FOR HARMONIZATION MUST COME WITHIN THE GATT . . . THAT IS, IF GATT IS SERIOUS ABOUT TRUE GLOBAL TRADE LIBERALIZATION!

MR. CHAIRMAN, AS YOU KNOW, I AM STILL HIGHLY SKEPTICAL OVER THE SUPPOSED BENEFITS OF PROVIDING THE MEANS TO ALLOW THE GATT PROCESS TO STUMBLE ON FOR ANOTHER TWO YEARS. IN ANY EVENT, WE MUST PROCEED FULL BORE WITH A NORTH AMERICAN FTA, A HEMISPHERIC FTA, AND LAST, BUT I EMPHASIZE NOT LEAST, A U.S.-TAIWAN FTA. WE MUST BE PREPARED FOR THE COMPETITIVE CHALLENGES OF THE 21ST CENTURY, AND THAT MEANS NOT PUTTING ALL OUR EGGS IN THE GATT BASKET!

THANK YOU AGAIN, MR. CHAIRMAN, FOR YOUR LEADERSHIP IN CALLING FOR THIS TIMELY AND IMPORANT HEARING. I LOOK FORWARD TO RECEIVING THE AMBASSADOR'S TESTIMONY.

RICHARD T. SCHULZE
5TH DISTRICT, PENNSYLVANIA

WAYS AND MEANS
COMMITTEE

Congress of the United States

House of Representatives • Washington, DC 20515

March 4, 1991

The Honorable George Bush
President of the United States
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Mr. President:

I am in receipt of your letter of March 1, 1991, regarding your request of Congress for an extension of the fast track procedures for the implementation of trade agreements. I appreciate the importance that you attach to that request.

As you know, many House Members, including some of my colleagues on the Subcommittee on Trade of the Committee on Ways and Means, seem inclined to oppose the extension of fast-track for reasons related specifically to the proposed U.S.-Mexico FTA. However, I have long supported, and continue to support, negotiations to achieve such an agreement. My particular and deepest concerns center on the Uruguay Round of GATT.

First, I feel strongly that the European Community (EC) offered nothing of such great substance in the area of agriculture that the U.S. should have felt compelled to rush back to the negotiating table. The EC merely committed to coming to agreement internally to negotiate within the GATT agricultural group. I am concerned that in accepting the seemingly vacuous EC offer, the U.S. has unwittingly sent the message the EC wanted to hear: the U.S. is, indeed, obsessed with concluding a GATT agreement.

Also, I firmly believe that as the GATT process marches on, the EC's negotiating position will only become strengthened. Lest we forget that most of the EC's attention is still focused on the conclusion of EC '92, and the increased leverage vis-a-vis its trading partners that it stands to gain as a result. The closer EC '92 comes to fruition, the more immutable the Community can afford to become in GATT negotiations. If we think the Community was unreasonable and intransigent on agriculture and other issues in the last Brussels Ministerial in December 1990, just wait until the next likely "concluding" Ministerial in December 1992!

PLEASE RESPOND TO:

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Washington, DC 20515
(202) 225-5761

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Suite 204
Paoli, PA 19301
800-262-5652 (toll free)
215-648-0555

THIS STATIONERY PRINTED ON PAPER MADE OF RECYCLED FIBERS

I also have some specific concerns with respect to the current status and likely results of an Uruguay Round GATT agreement.

In the Antidumping and Subsidy Code areas, critical U.S. industries (from semiconductors to steel to bearings) cannot accept the proposed weakening of such codes, and the corresponding changes in U.S. laws that would be necessitated as a result.

Granted, our negotiators succeeded in getting strong anti-circumvention, third country dumping and repeat offender provisions in the early Antidumping Code draft paper. However, some countries are well on their way to effecting damaging changes in the methodology applied by the Department of Commerce's Import Administration in calculating dumping margins, and securing a provision to ensure that outstanding antidumping/countervailing duty orders are automatically terminated after five years . . . regardless whether the dumping/subsidization persists! Common sense dictates that if the dumping or subsidy practice is continuing, so too should the antidumping/countervailing duty.

While I would like to see strong anti-circumvention, third country dumping and repeat offender language enacted in the Uruguay Round, accepting the opposition's proposals (described in the previous paragraph) would have a devastating impact on U.S. industry. In fact, in the wake of enactment of such proposals, American firms would never be able to prove dumping/subsidization in the first place . . . so what good would our proposals to combat after-the-fact problems such as circumvention and repeat injurious dumping/subsidization be?

In the area of dispute settlement, I support adoption of an improved dispute resolution mechanism, within which decisions would be made in a more timely fashion, and all countries would have access to a coherent, yet not cumbersome and delay-ridden, appeals process. I envision and have publicly advocated a dispute settlement mechanism based on a three-tiered approach. The first tier, within which 60-70% of pending disputes could probably be resolved, would accommodate the relatively minor and noncontroversial matters, those of a very technical nature. The second tier would provide a venue for resolving issues of a more delicate nature, perhaps 15-25% of outstanding cases. The remainder of the disputes brought before the GATT for resolution -- those of a most controversial nature, with far-reaching trade policy and political ramifications -- would be handled at tier three.

With further respect to the dispute settlement negotiations, I am particularly concerned that any dispute settlement mechanism not impinge on U.S. industry's ability to request U.S. government action through the unilateral application of Section 301 and our antidumping/countervailing duty laws. Indeed, some nations see the dispute settlement negotiations as a backdoor approach to preventing -- or, at least, severely hampering -- the vigorous application of selected U.S. national laws (mentioned above).

In the intellectual property (TRIPs) area, I fear we are heading toward an agreement that would provide only some minimum standards of intellectual property protection. This represents a step in the right direction, but is a far cry from what we could have and should demand. Further, it reaffirms my long-standing suspicions regarding the GATT's lack of willingness to address all of the real impediments to global trade expansion.

The current lack of intellectual property protection is a two-headed problem that necessitates a two-pronged solution. In addition to using a GATT TRIPs agreement to ensure intellectual property protection after a patent has been granted ("post-grant"), we must also face the fact that many countries use their patent application consideration processes to prevent or delay the issuance of patents in the first place. So, while the assurance of post-grant protection is a laudable and absolutely essential goal, some foreign patent systems are so discriminatory and cumbersome in nature that U.S. firms never even get to the point of worrying whether post-grant protection will be available. Indeed, they can't even get a timely and unbiased decision on their patent application! This costs potential U.S. exporters billions of dollars.

I feel strongly that the Uruguay Round has failed miserably in not incorporating the patent harmonization issue into the GATT TRIPs negotiating group. There are those within the GATT and the U.S. negotiating team who, while recognizing the need for harmonization, would say that the GATT TRIPs group is not the appropriate venue to discuss harmonization. Instead, they say, harmonization negotiations should be conducted within the World Intellectual Property Organization (WIPO). However, as the WIPO has no dispute settlement mechanism, the push for harmonization must come within the GATT . . . that is, if the GATT is serious about bringing about true global trade liberalization and all it entails!

Mr. President, while I support the notion of a U.S.-Mexico FTA, and a truly effective and forward-thinking GATT, I am highly skeptical over the supposed benefits of a continuation of the Uruguay Round, and how the extension of fast-track would allow the GATT process to muddle on for another two years. I feel we should concentrate on a U.S.-Mexico FTA, U.S.-Mexico-Canada FTA, a hemispheric free trade area, and last, but I emphasize not least, a U.S.-Taiwan FTA. Such undertakings clearly would expand trade opportunities, frighten and prod GATT into getting serious about multilateral trade expansion, and provide that body with the building blocks to make a truly liberalized and level trading system a reality in the 21st Century and beyond.

Again, Mr. President, thank you for your interest in this critical issue, and for your consideration of this response.

With warm personal regard, and strong commendation and appreciation for the decisive leadership you have displayed throughout Operations Desert Shield and Desert Storm, I am

Sincerely,

Dick

DICK SCHULZE
Member of Congress

cc: The Honorable Carla A. Hills

Chairman ROSTENKOWSKI. Mr. Moody.

Mr. MOODY. Same request.

Chairman ROSTENKOWSKI. Without objection, Mr. Moody's request is granted.

[The prepared opening statement of Mr. Moody follows. Also, unanimous consent requests were subsequently granted to insert the prepared opening statements of Mr. Ford, Mr. Archer, and Mrs. Johnson.]

STATEMENT OF HON. JIM MOODY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

This hearing is to consider the President's request for a two-year extension of fast-track negotiating authority for the purposes of continuing the Uruguay Round and negotiating a U.S.-Mexico-Canada Free-Trade Agreement.

I have been very supportive of the Uruguay Round and I hold the view that long term American interests lie in an open and free world trading system. I share the view held by many that progress made in opening agricultural markets to American goods will be critical to the success of the Round. The European Community still needs to be much more forthcoming in that regard. Otherwise, American agricultural interests stand to lose more than they gain.

Regarding a North American FTA, I have several outstanding concerns. I firmly believe that the United States must expand the agenda of these talks to include labor rights. If Mexican workers do not have the same rights available to American workers to organize and bargain collectively, then we cannot compete. As Mexican workers become more competitive, they should be able to bargain for higher wages.

I believe that environmental standards, and health and safety standards must be on the agenda. As a society, we impose these additional costs on U.S. producers for very good public policy reasons. We must not make them compete against companies in Mexico that do not in fact meet such standards, or where such standards are not fully enforced.

I will be traveling to Mexico in April to look more closely at these problems. In addition, I will be listening closely to the Administration's response to these issues.

We appreciate Ambassador Hills joining us to discuss these issues.

OPENING STATEMENT OF HON. HAROLD E. FORD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE

Ambassador Hills, thank you for testifying before the Ways and Means Committee today.

I am not opposed to extending the President's fast-track authority for another 2 years. Giving the administration this authority can speed the process for international negotiations and it can ensure that American Businesses and workers receive their fair share of the benefits of international free trade agreements. With the legislative guarantees that fast-track authority provides, the administration's ability to reach international agreements is enhanced.

Because of the power that comes with fast-track authority, however, we do not automatically give it to the President. President Bush does not have a carte blanche for international negotiations. But, again, I am not automatically opposed to extending fast track.

As you know, I was one of the 37 Members of Congress who wrote you with a number of concerns regarding free-trade negotiations with Mexico. I read your response letter of February 19, and I hope that you will speak a bit more today about how you and the President think a North American Free-Trade Agreement with Canada and Mexico will affect American workers.

OPENING STATEMENT BY THE HONORABLE BILL ARCHER
HEARINGS ON FAST-TRACK EXTENSION
March 12, 1991

Mr. Chairman, it is a great pleasure to join the Chairman in welcoming Ambassador Carla Hills. Once again, I want to commend you for your tireless efforts on behalf of the interests of the United States in the Uruguay Round and in the array of separate bilateral negotiations that are routinely conducted. I have full confidence in your abilities, as well as that of your negotiators at the Office of the U.S. Trade Representative.

The next two years will be anything but routine. The President has outlined a commanding leadership role for our country in the expanding world economy. The primary focus is to complete the precedent-setting Uruguay Round. The new economic order to which the multilateral trading community will have committed itself upon completion of this ambitious effort is essential to the growth and well-being of all nations. We cannot falter now, or fail to make the tough choices necessary to insure a dynamic global economy in the 21st Century.

The second challenge for our country is the negotiation of a North American Free Trade Area. Such a negotiation presents many opportunities as well as many obstacles. Concerns have been raised about the scope of the discussions and about potential adjustment difficulties for some sectors of our economy. In my opinion, it is important to recognize that this agreement has yet to be negotiated, yet to be presented, yet to be approved by Congress. In the final analysis, it will have to stand on its own merits in the acid test of public scrutiny.

However, we cannot ignore this historic opportunity to attempt to integrate the economies of our hemisphere under free market principles. All of our economies could be strengthened for the future, and the U.S. once again could lead the way in developing market opportunities and in raising standards of living.

The extension of fast-track authority to implement trade agreements is essential if we are to meet these challenges. Fast-track procedures allow our government to speak with one voice, to negotiate with one voice, and to commit unquestionably to an agreement that balances all the interest of our country and those of our trading partners.

These procedures are by no means fast. It requires constant consultation and advice from the Congress and from all concerned parties. It allows for deliberate consideration of all adverse effects, as well as benefits. Perhaps most importantly, fast-track allows Congress to meet its constitutional responsibilities without fracturing the negotiations or making it impossible to implement any final agreement.

In my view, a country with the economic and political stature of the United States must continuously exercise strong leadership. The opportunities and challenges are before us. Our economic leadership is crucial in meeting these challenges and in assuring a promising future for the global economy.

Thank you, Ambassador Hills, for coming today to discuss with us the important issues surrounding extension of fast-track authority and to answer our questions. Welcome.

STATEMENT OF

REP. NANCY L. JOHNSON

COMMITTEE ON WAYS AND MEANS

HEARING ON EXTENSION OF FAST-TRACK NEGOTIATING AUTHORITY

MARCH 12, 1991

Mr. Chairman, and I want to thank you and the distinguished chairman of the Trade Subcommittee, Mr. Gibbons for holding this hearing on this important matter. And I want to thank Ambassador Hills for being open to our concerns. She has earned the respect and admiration of our trading partners and she deserves ours, as well.

Mr. Chairman, if the importance of an issue could be based upon the number of lobbyists seeking appointments to discuss it, then the proposed U.S.-Mexico Free Trade Agreement is surely one of the most important issues we have seen in years. More seriously, the large number of interests now seeking to be heard on the proposed North American Free Trade Agreement -- and specifically on Mexico -- demonstrates the great uncertainty over the objectives, the costs, and the benefits of free trade on the North American continent.

But the Mexico FTA is not the question here today; the President's negotiating authority is. Madame Ambassador, at this point, you may count me among the uncommitted votes on both the FTA with Mexico and a new GATT agreement. I do not know if I will support either because I do not yet know their contents: what benefits they would provide and what constraints they might impose on us.

But count on my support for the negotiating authority you and the President would need to gain these, or any new agreements to expand trade. I am certain that, absent the mechanism we call fast-track authority, our trading partners will not respect any effort by the U.S. to negotiate with them.

I am as concerned as anyone about the particulars of a new GATT agreement or of a North American FTA. But, again, we are not here today to calculate the net benefit of any future, unnegotiated trade agreement but to understand whether Congress can encourage a better agreement under the fast track or under what I would call the "back track." My answer is that fast track works. It worked under the previous GATT, and it worked with the U.S.-Canada FTA.

Contrary to rumor, the fast track does not accelerate negotiations nor diminish congressional influence on the details of a trade agreement; in fact, it enhances our influence. With the fast track, our negotiators know they have only one chance to get an agreement right. If they bring back a bad one, we vote it down. Under fast track, there is no legislative tinkering with a bad agreement. We either approve a good one or reject a bad one.

What this means to our negotiators -- and I am sure Ambassador Hills will agree -- is that, under fast track, they must continuously consult with both Congress and the private sector to assess proposals.

And frankly, the current negotiating team has proven that they understand and value this consultative process. This evening, in fact, Ambassador Hills will meet with a group of Members and some of their industrial constituents regarding the status of the GATT. Indeed, the Uruguay Round could have concluded on schedule in December, had U.S. negotiators accepted the deal that was on the table in Brussels.

They did not. Either they believed it was a bad deal for U.S. interests, or they took an old-fashioned head count in Congress and concluded that they could not gain passage of the agreement on the table. Or both. In either case, U.S. negotiators' wisdom came from many hours of consultation with both Members of Congress and with members of the business and labor communities.

Without fast track, what incentive would negotiators have had to consult with either the Congress or private interests during negotiations when they knew that, whatever deal they brought back, Congress could amend it. More important, what nation would make tough commitments to U.S. negotiators to gain something important to them if they knew Congress, through amendment, might accept their sacrifice but deny them a gain?

Significantly, labor unions themselves utilize a process similar to fast track to gain approval of collective bargaining agreements. Their negotiators make commitments, then present a full package to their union membership for an up-or-down vote. Union members are not at the table, but they retain the right to reject a deal, as does Congress under the fast track.

Finally, let me point out that the proposed North American FTA will likely not be a total dismantling of trade restrictions between the three vastly differing economies of this continent, as its detractors have warned. Indeed, if such an agreement were presented to the Congress, it would likely fail, with or without fast track. I personally hope that, in the coming months, Ambassador Hills will make clear a strategy for ensuring that an FTA is not exploited by making Mexico an "export platform" for other nations to gain back-door access to the U.S. market. But negotiators need to be given the opportunity to explore the possibilities of an agreement that truly would be a "good deal" for all three countries, with U.S. interests squarely in mind.

These are tough times in my home state. Jobs are disappearing and hardship is real. However, in Connecticut, we have learned firsthand that economic growth can be created by exporting and, while Connecticut workers are some of the most highly compensated in the nation, we also export more per capita than any other state. I believe fast track can allow us to both open new markets and safeguard other interests.

I thank the chairman.

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Chairman ROSTENKOWSKI. Ambassador, welcome and we are looking forward to participating in a discussion with you.

STATEMENT OF AMBASSADOR CARLA A. HILLS, U.S. TRADE REPRESENTATIVE

Ambassador HILLS. Thank you, very much, Mr. Chairman, and members of the committee. It is a pleasure to be here. You have my prepared testimony for the record, and I do hope that the members will also take the opportunity to read the President's report submitted March 1, which lays out in detail the basis of the President's request for an extension of fast-track procedures.

This morning I want to put aside entirely my prepared testimony and stress just a few points.

First, I think you know how strongly this administration feels about fast track. The President underscored the importance this administration attaches to fast-track extension in a letter he has sent to each and every Member of Congress. The question is really quite simple. Are we going to be in the business of negotiating trade agreements to open markets and to bring down trade barriers? That is the objective that this Congress and the executive branch set for themselves in the 1988 Trade Act.

My answer is simple—we must be. The United States leadership in the global economy depends upon it. The success of our multilateral trading system depends upon it, and above all, U.S. economic growth and jobs depend upon it.

During the past 3 years, export expansion has accounted for over half of the U.S. GNP growth. Last year, with our domestic economy slowing, exports accounted for 88 percent of the growth of our GNP.

Second, Mr. Chairman, I read with interest the letter that you, and Chairman Bentsen sent last week to the President. Others on this committee, and elsewhere in Congress have also written to the President and to me. I fully share many of the sentiments reflected in your letter. You said, in your letter, that extension of fast track is necessary if the administration is to have any credibility in the multilateral or bilateral trade negotiations. Let there be no mistake, there will be no real trade negotiations involving the United States if fast track is not extended.

You also noted in your letter that in considering free-trade negotiations with Mexico a number of Members of our Congress have raised concerns about issues not typically addressed in trade agreements. Specifically about the adequacy of and enforcement of environmental standards, health and safety standards and workers' rights. I agree with your characterization of these concerns as legitimate ones that deserve to be addressed in a meaningful way. You asked for our thoughts by May 1 on how these concerns should be addressed. I look forward to working with you and the members of this committee and the private sector representatives in fashioning an effective approach.

I am confident that we can find common ground with those who share our vision of an unprecedented opportunity for economic growth on both sides of the border and advancement of a broad agenda with the Government of Mexico.

Finally, Mr. Chairman, you cautioned in your letter that we do not lock ourselves into an unrealistic time frame to conclude a North American Free-Trade Agreement negotiation. Once again, I fully agree. As you well know, the fast track is not really fast, nor a track. It is not fast. The process is actually quite deliberate. And it is not a track. No one is being railroaded into approving agreements that might be negotiated.

Fast-track procedures have absolutely nothing to do with the pace at which we conduct the negotiations. Let me reiterate an assurance I have made before to this committee. We will not rush to conclude any agreement, the Uruguay round, Mexico, or otherwise, merely for the sake of an agreement. We proved that in Brussels. Our standards are high. While we are eager to capture the benefits of these agreements, we will take time, the time necessary to arrive at agreements that are truly and substantially in the economic interest of the United States. We will take the time needed to consider all relevant issues and to consult fully with you and with the private sector.

Until we arrive at good agreements—ones that we believe you will agree are good—there will be no agreements. The fast track, as conceived by the Congress, and implemented by the executive branch and Congress, is a genuine partnership of the two branches. Although only the President can negotiate trade agreements, and fast track's guarantee of a timely up or down vote is essential to the President's ability to negotiate, Congress has a full role throughout the entire process in formulating the negotiating objectives, in close consultation as the negotiations proceed—I might say parenthetically, that in the Uruguay round, you have reviewed each and every one of our proposals and many of you were with me in Brussels—in close consultation before any agreement is signed, and in full participation in drafting the implementing legislation.

As in the past, I expect the administration to work closely with this and other committees of jurisdiction in crafting the implementing legislation. And if we do our job right, then we will see the administration submitting to the Congress precisely the legislation that you and the other committees produce in the markup and conference process. Indeed, if we do our job right, which includes this close consultation envisioned by the whole fast-track process, then the trade agreements and implementing legislation should be approved overwhelmingly by the Congress. If we do not, then each member of this committee and of the Congress, overall, retains the unqualified right to vote against the agreement by a simple majority. An extension of fast track in no way impairs your ability to exercise that right.

Mr. Chairman, in my 2 years as Trade Representative, I have been most grateful to you, to Chairman Gibbons, Mr. Archer and others on the committee for your leadership in forging an effective partnership between the administration and the Congress on trade policy.

I hope through supporting the fast track extension you will permit that partnership to continue. That we shall, together, pursue vigorously the unprecedented opportunities for economic growth and prosperity that our partnership makes possible. I am pleased to answer your questions.

[The prepared statement follows:]

TESTIMONY OF
AMBASSADOR CARLA A. HILLS
UNITED STATES TRADE REPRESENTATIVE
BEFORE THE
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES
MARCH 12, 1991

Introduction

Thank you, Mr. Chairman, for the invitation to testify about the President's request to extend fast track procedures.

Fast track is crucial to United States leadership in the global economy. The procedure enables us together to pursue and implement United States trade policy, a policy which has been developed and implemented in a close working partnership with Congress and the private sector.

Overview of Fast Track

Still, there is a widespread misunderstanding about what fast track is and what it isn't; about its origins and its application today.

For more than 50 years, Congress and the Executive Branch have worked together in close coordination and consultation to negotiate and implement trade agreements.

In the aftermath of the disastrous Smoot-Hawley Tariff Act of 1930 and the Great Depression it helped fuel, your predecessors and mine realized that we, the Legislative and Executive Branches, must work together to craft a national trade policy that opens markets and promotes U.S. exports.

That meant institutionalizing a system of trust and partnership which was first reflected in the Reciprocal Trade Agreements Act of 1934. Congress delegated to the President the power to negotiate tariff-cutting agreements with other nations and to implement them by proclamation without the need for subsequent legislation. In the years after its enactment, the Reciprocal Trade Agreements Act proved a great success. Congress's action in passing the 1934 Act can be credited with helping make possible the extraordinary economic growth after World War II, both in the United States and around the world.

Our partnership in developing and implementing U.S. trade policy evolved in later years as trading nations began to rely less on tariffs to protect their markets and more on non-tariff trade barriers. Consequently, the scope of trade negotiations, was broadened to include new areas previously uncovered by international rules.

The fast track procedures were created by Congress as the necessary complement to this broader trade agenda. Fast track procedures for approval of trade agreements were included by Congress in trade legislation in 1974, 1979, and again in the Omnibus Trade and Competitiveness Act of 1988. While giving Congress the assurance of meaningful participation throughout the negotiating process, fast track also provides two guarantees essential to the successful negotiation of trade agreements: First, a vote on implementing legislation within a fixed period of time; and, second, no amendments to that legislation.

These procedures reflect an understanding that trade agreements, in which results in one area are often linked to results in others, are particularly vulnerable to multiple

amendments that, while possibly small in themselves, could unravel entire agreements. Whether the balance of benefits contained in any trade agreement is in the overall interest of the United States can only be determined by looking at the whole package.

Through the fast track, Congress has given the President the same bargaining power possessed by his counterparts: The ability to ensure that the agreement reached internationally would be the agreement voted on at home. Without that assurance, foreign governments are reluctant to negotiate with the United States and will not make the tough concessions necessary to reach agreements the United States would be willing to sign. No negotiating partner will give its bottom line knowing that the bargain could be re-opened.

Myths of Fast Track

Let me take a few moments to dispel two myths about fast track:

Fast track procedures are not "fast" and are not an inevitable "track." The process is actually quite deliberate and relatively slow and the outcome is not assured.

To be more specific, fast track procedures have absolutely nothing to do with the pace at which we conduct negotiations. Let me reiterate an assurance that I have given to this Committee: We will not rush to conclude any agreement, merely for the sake of any agreement. We proved that in Brussels and our high standards have not changed. While we are eager to secure as soon as possible the benefits that trade agreements promise, we will take whatever time is needed to arrive at agreements that are truly in the economic interest of the United States. We will consider all relevant issues in a negotiation and consult fully with you and the private sector. Until we arrive at good agreements -- ones that we believe you will agree are good -- there simply will be no agreements.

Your vote to approve fast track extension does not mean that whatever the Administration negotiates afterward is automatically, or even rapidly, approved. Fast track procedures preserve Congress's role during the negotiation, approval, and implementation of trade agreements. The fast track statute includes extensive notification and consultation requirements with both Congress and the private sector throughout the process. Each step of the way, this Administration will continue its close consultation with Congress and the private sector.

For example, we started formal and informal consultations with Congress on an FTA with Mexico almost a year ago, well before our formal notification of negotiations. We have been talking to a range of Committees and members about their objectives and advice, and will continue to do so once negotiations commence.

Once an agreement is reached, Congress and the Administration work in close consultation to formulate implementing legislation. The process has been open to all committees of jurisdiction. If the agreement and its implementing legislation are still not acceptable, they can be rejected by majority vote of either house.

Economic Reasons for Extending Fast Track

The United States has much to gain through trade agreements that open markets and provide rules for free and fair trade. Maintaining the fast track will preserve our ability to continue

efforts to liberalize trade and open markets through the GATT, through other multilateral agreements, and through bilateral agreements.

Opening markets and expanding trade is at the top of the President's agenda.

As 1991 begins, international trade is more important than ever to the United States. Our economy has enjoyed six years of record expansion. The engine of this expansion was U.S. exports. Over the past three years, exports of goods and services contributed more than 50 percent of the growth of GNP. And while exports expanded at a rate of 16 percent from 1987 through 1990, imports grew less than half as fast.

The U.S. economy now has entered a temporary recession. But the vitality of U.S. trade has not been interrupted. As the President said in his State of the Union Address, "Exports are running solid and strong."

In 1990, the rate of growth of U.S. exports was twice as fast as the rise in imports. The nearly 8.5 percent growth in exports generated 88 percent of our total economic growth last year.

This is because the global economy remains strong, and U.S. goods are in great demand around the world.

The flow of U.S. goods must be maintained and expanded lest exports -- our vital engine of growth -- sputter or stall. More than ever, we need the billions of dollars a year of economic stimulus that greater access to foreign markets could provide.

As Dr. Michael Boskin, chairman of the Council of Economic Advisers, said last week: "Fast track is integral to a strategy of American economic growth and success."

Opening markets and expanding trade also will enhance the economic growth of poorer nations, including the emerging democracies of Eastern Europe and Latin America. Such growth not only promotes political stability, but will also make those countries much better customers for U.S. products.

Without the impetus of a more open trading system, these nations will be drained by the massive costs of protections now imposed on them -- costs that now total two-and-a-half times all the aid they receive from industrialized countries.

We find ourselves at this critical time with real opportunities to open markets in areas that will expand our trade. It was precisely to take advantage of such opportunities that Congress contemplated in the 1988 Trade Act a two-year extension of the fast track procedures that would otherwise have expired in June of this year.

Fast Track is Crucial to Concluding a Successful Uruguay Round

Our top priority is to complete a comprehensive agreement in the Uruguay Round of global trade talks and in so doing to strengthen and broaden the General Agreement on Tariffs and Trade, or GATT. The GATT is without doubt the world's most important trade agreement. Indeed, it is the Constitution of World Trade.

Under GATT sponsorship, the world's trading nations have held seven successful rounds of negotiations since World War II in which tariff rates were slashed by more than 75 percent. As a result, trade exploded from just $60 billion in 1950 to nudge the $4 trillion mark this year.

This enormous expansion in global commerce has fueled a spectacular surge of the world and U.S. economies. Both have grown faster in the last 40 years than in any four decades of world history. Consequently, we have enjoyed unparalleled global prosperity.

The GATT has opened new markets for business, increased choices and lowered prices for consumers, and led to higher incomes and more jobs for workers.

But just as a thriving family outgrows its first house, so too has the family of 100 nations, who make up the GATT and account for 85 percent of world trade, outgrown the rules that have served us so well for so long.

Today, a third of world trade -- more than $1 trillion of international commerce a year -- is not adequately covered by internationally agreed rules.

Areas inadequately covered by GATT rules, like agriculture, or not covered at all like services, investment, and intellectual property have taken on an enormous importance in global trade generally and to the United States in particular.

The United States led the call for the far-reaching agenda of issues in the Uruguay Round. Congress and the private sector supported this effort. Congress laid out the negotiating objectives for the Uruguay Round in the 1988 Trade Act.

Several members of this Committee, and your staffs, were with us in Brussels last December. Rather than conceding our goal of an ambitious agreement, together we agreed that no agreement was far better than a hastily negotiated face-saving solution.

After a three-month suspension, the countries that brought the talks to a halt returned to the table with a new-found willingness to negotiate specific commitments in the critical area of agricultural trade reform. As you know, this area is the linchpin of the Round; without real reform, many of the countries participating in the talks are not willing to negotiate in many of the Round's other important areas.

The prospects for a successful conclusion are better now, but we have tough negotiating ahead. We will continue to work with you to bring these talks to fruition.

The benefits the Uruguay Round could bring to America are enormous:

- Lower tariff and non-tariff barriers to manufactured products and other goods could increase world output by $5 trillion, and U.S. output by more than $1 trillion over the next 10 years, meaning an additional $17,000 for every American family of four;

- Rules to protect the intellectual property of America's entrepreneurs, ending the $60 billion lost each year through theft and counterfeiting;

- New markets for U.S. service firms, which today export $115 billion annually and create 9-out-of-10 of our new jobs;

- Broader market opportunities for international investment, creating expanded opportunities in a sector that already helps

generate more than $240 billion of U.S. exports, or two-thirds of total U.S. exports in goods;

- Fair competition and open markets for U.S. farmers, who lead the world with more than $40 billion in annual exports;

- Full participation of developing countries in our global trading system, which could increase U.S. exports 50 percent, or $200 billion, by the year 2000;

- And, strengthened rules on dispute settlement, antidumping, subsidies, and trade remedy provisions, that should provide predictability and certainty in access to foreign markets and ensure fair trade at home.

The fact is that a failure to extend fast track authority will effectively end the Uruguay Round negotiations. It will damage prospects for world economic growth and cooperation. A collapse of the Round brought about by the removal of fast track would increase worldwide pressures to raise trade and investment barriers. And, of course, the unraveling of the international trading system would deny U.S. consumers and workers the enormous benefits of open markets.

Fast Track is Essential to Negotiate a North American FTA

Beyond the Uruguay Round negotiations, we continue to press for open markets.

A North American Free Trade Agreement more closely linking the economies of the United States, Mexico, and Canada could be a potent force for regional growth and prosperity. We expect these discussions to lead to market opening agreements that will create new and improved opportunities for U.S. exports across the entire spectrum of American industry.

The United States is Mexico's principal trading partner; Mexico is our third largest customer. Canada is our largest trading partner. Linking our complementary economies through free trade will strengthen these economic bonds and increase regional political stability. Ultimately, the creation of a North American Free Trade Area will create the largest, richest market in the world with 360 million consumers and $6 trillion annual output.

Also, a North American Free Trade Agreement also will support our broader aim of open markets and expanded trade globally, for other countries will have greater incentive to seek open markets with us. It also can serve as a starting point for the pursuit of a hemispheric free trade area -- the long-term objective of the Enterprise for the Americas Initiative.

Despite these benefits, some critics claim that an FTA will be a "one-way street" with inexpensive Mexican goods flowing into the United States and few of ours going the other way. The evidence disproves this notion. Since 1986, when Mexico joined the General Agreement on Tariffs and Trade, and reduced its tariff protections from 100 percent to roughly 10 percent, U.S. exports to Mexico have more than doubled rising from $12.4 billion to an annualized rate of $28.4 billion in 1990. The doubling of U.S. exports created 320,000 U.S. jobs. Each additional $1 billion of U.S. exports will mean more than 20,000 new U.S. jobs.

All sectors of the U.S. economy have benefited from this market opening: exports of automobiles and auto parts have quadrupled; exports of corn have tripled; and exports of telecommunications equipment have doubled. Exports of iron and steel, that were running a $12 million deficit four years ago, now are tallying a $300 million surplus. Just four years ago, we had a $91 million deficit in textiles and apparel trade with Mexico. Today, we are running a surplus.

A free trade agreement would not only lock in these gains, but also spread them throughout the U.S. economy.

There is also a fear that a free trade agreement will export U.S. jobs to Mexico. But again, the experience of the last decade disproves this speculation.

During the 1980s, U.S. firms set up factories in Mexico at a record pace under the maquiladora program. As a result, thousands jobs were created and retained on the U.S. side of the border to support those facilities, according to some studies.

A good example is Deltec, a San Diego electronics manufacturer. Since it started a maquiladora five years ago, its sales have quadrupled and its workforce has tripled with employment in San Diego rising by 50 percent.

Many of its San Diego workers were retrained to fill higher-skill and higher-paying jobs. Deltec's added business also generated new jobs in and around San Diego as its spending for raw materials and services there grew four-and-a-half times.

Indeed, the availability of Mexico as a factory site is saving U.S. jobs. Kendall Co., a Massachusetts-based medical equipment maker, says that were it not for the maquiladora program its ability to compete effectively in certain segments of the health-care market would have been significantly impacted. This fact could very well have jeopardized the approximately 3,000 jobs which currently exist within the United States. Other companies that would have been forced to relocate operations offshore to remain competitive instead are setting up operations in Mexico.

While the benefits of an FTA are apparent, the Administration recognizes that some groups worry about the consequences of increased competition from Mexico. We are sensitive to these concerns and want to work with Congress and the private sector to ensure that our negotiating objectives take these concerns into account.

In this regard, nothing we negotiate will be implemented overnight. We know that business, labor, and farmers on both sides of the border will need time to adjust. We will ensure that any agreement be phased in over time and provide an effective mechanism to protect against import surges. In the end, we will have a new economic regime that will benefit all.

Progress in the trade area also will support and reinforce progress in our broader bilateral agenda with Mexico. Long before there was any talk about an FTA with Mexico or a North American FTA, the United States and Mexico were discussing and acting upon a broad bilateral agenda extending far beyond trade. Our countries share a common goal of an improved way of life, both economically and socially, for our people. Agencies such as the EPA and the Departments of State, Justice, and Labor, have been working in their area of expertise to promote our broader bilateral agenda. We have worked with Mexico to support and enhance its own efforts to address pressing social needs.

Progress in North American free trade negotiations would

assist efforts on our broader agenda. Conversely, rejection of fast track would hinder our efforts in all areas.

The goal of United States trade policy is to open markets and expand trade for U.S. goods throughout the world and so provide a powerful stimulus for economic growth. A North American Free Trade Agreement will do just that and create on the North American continent a new era of opportunity and prosperity.

Conclusion

Supporting fast track will allow these important initiatives to go forward without in any way detracting from Congress's ability to assess each agreement on its merits when presented for approval.

We have much to gain from extending fast track: an era of extraordinary economic growth, geopolitical stability, lower prices and greater choices for consumers, more jobs for workers, and a better standard of living for our people.

We have all this to lose, and more: after the enormous international respect and goodwill we have gained from our role in the liberation of Kuwait, to deny the President the ability to negotiate trade agreements would be a severe set back. For the United States, the world's biggest market, its largest exporter, the leader of the free world, not to be a real participant at the bargaining table would be an abdication of responsibility to the world trading system, the U.S. economy, and, above all, to the American people.

Congress and the Executive Branch must continue to work together. Fast track will facilitate that partnership.

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Chairman ROSTENKOWSKI. Well, thank you, Madam Ambassador. I don't think that any member of this committee could complain about the cooperation that you and your staff have exhibited with those of us on the Ways and Means Committee. I can't remember anyone who was more attentive and more cooperative and sometimes, patient with our committee.

I am looking forward to having the administration give me an idea of how they expect to address the problems of the environmental and health and safety standards and workers' rights issues in the near future.

Under existing procedures, Madam Ambassador, the Congress may either allow fast-track authority to be extended for both bilateral and multilateral agreements or deny it for both. What would be your reaction if an effort were made to change the House rules so that these issues could be considered separately?

Ambassador HILLS. I think it would be a grave mistake, Mr. Chairman, a grave mistake. We have an opportunity to make permanent the reforms that have been put in place by the Salinas administration with the North American Free-Trade Agreement. I think that is extremely important. As that administration has reduced Mexico's trade barriers, we have doubled our exports. So those benefits simply must be captured.

And, on the other hand, the Uruguay round offers us the opportunity to not only grow the global economy by $5 trillion, but to grow our economy by more than $1 trillion over a decade.

These are benefits that we cannot turn our back on. We can deal with the concerns that have been expressed by one group or another toward one or the other of those potential agreements. But their concerns are expressed towards agreements not yet negotiated. When the agreements are negotiated, if they don't meet our high standards, we will not present them, and should we be so foolish as to present an inadequate agreement, you will not vote for it because you have the power to vote it down by a simple majority.

So let us see how good a deal we can negotiate. The need is particularly true, when our exports are currently contributing such an overwhelming percentage to the growth of our GNP.

Chairman ROSTENKOWSKI. Well, I certainly agree, Madam Ambassador, and that at the conclusion of last year's negotiations, we had a telephone conversation about it. I must admit that I was proud of the way you handled yourself. I think that you know my inclination is to be supportive, but I just see the storm brewing out there and I want the administration to be aware of it.

Mr. Gibbons.

Mr. GIBBONS. Thank you, Mr. Chairman.

I support the letter that you and Senator Bentsen wrote to the President. I think it was wise. I have a few observations I would like to make. In the 28 years I have been here, in Congress, I have never known a U.S. Trade Representative who was more willing and able to sit down and work with Congress than Ambassador Hills. I have never known anyone who worked harder at the job and who was available for every telephone call and for every conference, night and day. And she does it with such grace, and such skill and such determination, that I have to commend her.

Two, in the 58 years that Congress and the President have been cooperating on trade matters, the so-called fast-track procedure has been in existence. In fact, for most of those 58 years, the President didn't even submit the agreements back to Congress; he just proclaimed that they were the law, and they were. It was in 1974 that we modified that requiring him to send back, on a take-it-or-leave-it basis, the fast-track provisions, the substantive changes that he was making.

Now, there is only one major opponent, organized opponent to the extension of the fast track that I have been able to detect and that is the AFL–CIO. What could be a greater travesty than the fact that they oppose fast track? Now, can anyone tell me, when, in 90 years of AFL–CIO's existence, they have ever negotiated anything other than on a fast-track procedure? They say, we consult with our constituents. Well, we consult with our constituents and we do it all the time and the Ambassador consults with all of us all the time.

So, I think it is as plain as the nose on my face, and that's rather plain, that all the AFL–CIO wants to do is to kill the negotiations, because they know and all of us know that you can't negotiate except on the so-called fast-track procedure.

So, let's just call a spade a spade and face it like it is. I don't know why they don't trust us to negotiate, as they are trusted by their own members. Then to come back and to ratify it and approve it, as their own members do, on the so-called fast-track procedure.

So, I don't have any questions for the Ambassador. I think she's doing a wonderful job and I think we ought to support what she's doing and judge her handiwork when it comes back to us, 6 months from now or a year from now or 2 years from now, whenever it comes back.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Schulze.

Mr. Gradison.

Mr. GRADISON. Thank you, Mr. Chairman.

Madam Ambassador, as you know, I'm a strong supporter of this agreement. I come from what used to be called the Rust Belt although now I guess it is one of the most vibrant parts of this country because of the resurgence of manufacturing in our economy. I have real difficulty, and I have said this to opponents of the agreement who come in to see me, I have real difficulty understanding their concerns about the impact on manufacturing because we are already gaining jobs in my district, right now, from the growth of exports to Mexico. It would seem to me that to the extent that they reduce barriers, those opportunities will grow apace.

I do, though, want to focus on one concern that is continually brought to the attention of our membership. That is the earlier references to 6 months. Now, I listened carefully to what you said and I understand in principle that you will take the time that is necessary. Nonetheless, that 6 months comment is sitting out there, and I think it is hurting the cause. The reason I say it is hurting it, is, in my view, because it took a lot longer than 6 months to negotiate the agreement with Israel and it took a good bit longer to negotiate the agreement with Canada.

And, at least my impression, is that the problems of negotiating an agreement with Mexico are not less, but every bit as great, or even more than either of the other two. Can you enlighten us on the timing and what some of those earlier references—which I think emanated from the administration—mean with regard to 6 months and where you are on this right now?

Ambassador HILLS. Well, Mr. Gradison, where we are right now is to take all the time necessary to negotiate a good agreement. I am not sitting here prepared to tell you that 6 months is all the time it will take, in view of the widespread concerns that have been expressed. This administration wants to deal with those concerns, and so that we will deal with them in a timeframe that enables us to generate the kind of support that we think this agreement deserves.

The earlier comment was made in a very different context. There was concern that to have Canada join the negotiations would so complicate and slow up the negotiations that we estimated that we could finish the agreement in a certain period of time and then responded to a question—that the addition of Canada would not elongate that period of time.

But we want to deal with the concerns that the chairman and others have raised, and we will take all the time that is necessary to deal with both the concerns and to negotiate a good agreement. That may be, indeed, longer than this calendar year.

Mr. GRADISON. Thank you, Madam Ambassador, thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Pickle will inquire.

Mr. PICKLE. Madam Ambassador, tell me again, why it is important that we pass the fast track with respect to the Uruguay round; what is the connection?

Ambassador HILLS. If we do not have fast-track authority we cannot negotiate a good agreement. Fast track is simply a procedure that permits the executive branch to negotiate an agreement. The executive works in consultation with Congress to develop a good agreement, and then brings it home and presents it so that it will be voted on within a specified period of time without amendments.

In the Uruguay round, we are negotiating with 107 countries, in 15 negotiating groups and each of those groups have many complicated subparts. Were each of our congressional leaders to add just one minor amendment to the product that we bring home, it would look very different than the deal that we struck with our counterparts overseas.

Mr. PICKLE. Well, you're saying then that if we were to reach agreement on the Uruguay round without this fast track, the bill would come back here and it would be subject to amendments and for change. And the United States would then probably not be able to reach an agreement at all?

Ambassador HILLS. Mr. Pickle, it goes much deeper than that. I believe that if we are to lose the extension of the fast-track procedure, whereby we present an agreement to you, our trading partners would not negotiate further with us. That would spell the death knell to the Uruguay round.

Mr. PICKLE. I rather agree with you, that would probably be the case.

Tell me now, I am from a border State and I am inclined to support this fast track and the pending FTA [free-trade agreement] with Mexico. If we pass this fast track and assume the Uruguay round would be successful when would you submit to Congress the Mexico Free-Trade Agreement; when would it be probably discussed?

Ambassador HILLS. As I suggested to Mr. Gradison, we do not have a final time line on the Mexican Free-Trade Agreement, now known as the North American Free-Trade Agreement. There have been a number of concerns expressed by your colleagues in this body and we want to deal with those concerns. That will take, I think, more time than we had originally thought would be necessary for the negotiation.

Mr. PICKLE. Well, I'd like for you to express to us the concerns that have been expressed to you. I don't know how you would handle the question of jobs that might be lost. How would you handle that, through retraining? What approach would you recommend that we use to satisfy that concern?

Ambassador HILLS. Our analysis—and there have been a number of studies—indicate that the North American Free-Trade Agreement will actually be job-creating in this country, as well as, in Mexico. That it will have a substantial economic benefits, and that we will not only preserve the jobs we have, but that we will have additional jobs as a result of it.

Mr. PICKLE. So, in other words, you are saying we're going to gain more through job creation than we would lose through the loss of some jobs?

Ambassador HILLS. We will most assuredly gain more than we lose, but we do want to consult with those sectors who have a concern. There are programs on the books. The Employee Dislocation and Workers Adjustment Act has been a very good program for dealing with the retraining of workers who have lost jobs due to imports.

Mr. PICKLE. I hope you would also submit for the record, my concern about what part Canada would play in this. We were trying to establish a North America trade zone, so to speak, and that's desirable. If we have it for Canada, I don't know how you can say we shouldn't have it for Mexico.

Will Canada have a voice in the negotiations and the right to disapprove of something, or will they just be a part of the negotiating process? How will you handle Canada?

Ambassador HILLS. We will have a trilateral negotiation but we also have an agreement with Canada. If at any time, it finds that it no longer wishes to proceed, that Mexico and the United States can proceed to negotiate a bilateral agreement. Canada has agreed that the free-trade agreement that we currently have with it will stay in full force and effect.

Mr. PICKLE. Well, I wish you well on the legislation and I commend you for the job you're doing.

Ambassador HILLS. Thank you, very much, Mr. Pickle.

Chairman ROSTENKOWSKI. Mr. Rangel will inquire.

Mr. RANGEL. Thank you, very much, Mr. Chairman.

Madam Ambassador, let me join with my chairman and Mr. Gibbons in admiring the negotiation skills that you bring to these international trade agreements. Certainly your career has demonstrated that you have earned the reputation to be an outstanding public servant. We are all grateful for that dedication.

In terms of the partnership, I have to represent my constituent interests. As you well know, one of the crises that our Nation is facing today is the in-flow of narcotics into our cities and our suburbs around the Nation. The Drug Enforcement Administration would have me to believe that over half of the cocaine that comes into our homes, our schools, and our workplace is pouring across the Mexican border. Obviously you have been unable or unwilling to put this sensitive subject on the table or feel it would not be in the interests of our Nation to have this concern expressed in any way. It just seems to me that this is an opportunity to express to our neighbors and friends in Mexico that this is not just a national problem but an international problem.

I don't single you out, however. It is abundantly clear to me that if you and I would search the public records that we would find that narcotics has not really reached a priority in terms of our foreign policy; we would not see any Cabinet official speaking about this issue in education, in prevention, in treatment, in interdiction, and certainly not to be of assistance to our local and State law enforcement, who risk their lives every day.

I just thought that this might be an opportunity, and appropriate, to address this serious crisis. But it seems as though whether we are talking about a fast track or slow track, that this issue has no priority on anybody's agenda, and I say that with a very, very heavy heart. God knows I've tried, but there doesn't seem to be anybody in any Cabinet position that is willing to take the leadership on this. If we are going to be effective in trade, it just seems to me that our labor force has to be productive, drug-free, competitive, and somehow it just doesn't get on the agenda.

So, I regret to say this. We've had a lot of communication by mail. We've had a lot of opportunity to exchange ideas on this subject, but it never sees the light of day. I just say that with deep regret.

Ambassador HILLS. Mr. Rangel, let me say to you that we do take your comments to heart. One of the first things that newly elected President Bush did, with respect to Mexico, was to enter into a binational agreement, to control drugs in February 1989. As a result of that binational agreement, we now have joint working groups; we have information exchange; and the Salinas administration has greatly increased the cooperative efforts to stop the flow of drugs into our country—the scourge which both you and the President have addressed.

The Mexican Government is now letting us fly surveillance missions over their territory. I think it is the only sovereign state that permits us to do that. Just prior to the President's visit to Monterrey last year in November, President Salinas created a northern border response force which consisted of a special interdiction force of 1,500 people.

As a result of these efforts, in 1990 we captured more cocaine shipments than any of the prior 6 years combined. The Salinas ad-

ministration, granted, is a poor country, nonetheless, it has increased its resources going to fight drugs by 60 percent. It has enacted laws that have much stricter penalties. And President Salinas has fired more than 500 government officials that have been implicated in corruption or in dealing with drugs.

So we think that we are building a strong cooperation to deal with a problem that adversely affects Mexico and adversely affects this country. We are looking for even better ways to deal with this problem, because you are right, we must deal with the issue. The question is, how do we best deal with it? Is the best way within the free-trade agreement or is it through a collaborative effort of our two Attorneys General. These are issue about which you and I can talk. I think that, however, we are using every opportunity when we meet with the Mexican Government to talk about the drug problem. So, I hope I can raise your hopes on this very important issue. We are not in disagreement at all.

Mr. RANGEL. I agree with what you say, Madam Ambassador, do not know your position as it relates to this treaty, but I certainly agree with you and support the efforts made by the Salinas administration, but I really was talking about this treaty.

Chairman ROSTENKOWSKI. Mr. Archer.

Mr. ARCHER. Thank you, Mr. Chairman.

Mr. Chairman, I apologize for being a few minutes late. I attended the same meeting at the White House that Carla Hills attended, and she obviously knows a faster way to get to the Capitol than I do.

I had a welcoming statement that I would have made, had I been here at the beginning of the meeting. I would like to have that inserted in the record, if I may, Mr. Chairman, so that I don't have to go through the whole thing.

Chairman ROSTENKOWSKI. Without objection.

[The statement appears earlier in the hearing.]

Mr. ARCHER. You obviously have done an outstanding job as our negotiator in the Uruguay round, and I compliment you for that. I cannot, as Mr. Gibbons said, understand why anybody would want to prevent you from attempting to negotiate some sort of a trade agreement with Mexico, and that is precisely what a denial of fast track would do.

There are many, many areas where our country and their country share concerns and we have to live together. Being a Texan, we have got a long border with Mexico, and we have to live together. We have many joint problems. We can help each other. We can compliment each other. I think that you should have the opportunity to see if you cannot negotiate something that would benefit both countries.

It also seems to me that, at the same time, we are trying to get the world to reduce its barriers through the Uruguay round. Europe 92 looms larger and larger, and that by the way is a misnomer, it does not happen until 1993—when we say 1992, it is not accurate. But as a uniform trading block, there are many who believe that it will be a trading block that will tend to be more difficult to get into for U.S. producers.

There are those who say it will be easier to get into, but we do not know yet, but we do know that it looms out there, and why not

at least give you the opportunity to see if we could not develop a North American trading arrangement that would benefit us. I hope we can do this.

I would like to ask you one specific question, if I may. The ITC had a recent study that said that, in their opinion, if a Mexican Free-Trade Agreement were negotiated, that there would be a slight decline in the real income of unskilled workers. I understand that there is some more recent data, although this came out last month, that there is even more recent data that changes that conclusion, and I would like for you to comment on that, if you would.

Ambassador HILLS. I am aware of a memorandum that has been prepared and made public by the ITC that indicates that its initial report and truly it was reported as so, were preliminary. At the time of the report they did not have empirical evidence with respect to elasticities of substitution of goods imported from Mexico for United States' goods, so they worked on a set of assumptions.

Subsequently, they found that there had been empirical data collected, and when they worked from the empirical data collected, with respect to elasticity of substitution between Mexican products and competing United States products, they came to the conclusion that unskilled workers in the United States would actually have a general increase of their real wages as a result of the free-trade agreement.

I am told that this memorandum has been sent to this committee and that the ITC is putting its more formal data into a report and sending it forward. This additional data is most assuredly welcome, because that indicates that both skilled and unskilled workers would benefit, with an increase in real wages income as a result of the North American free trade agreement.

Mr. ARCHER. Thank you for giving that information to the committee.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Russo.

Mr. RUSSO. Thank you very much, Mr. Chairman.

Ambassador Hills, one of my concerns has been the efforts to exclude cultural industries from major trade treaties. We thought we had protections in the Canadian Free-Trade Agreement, and then they were dropped at the last minute, and I am concerned that that precedent will be repeated in the GATT round and if we go to a Mexico Free-Trade Agreement. Is there any way you can assure us that the agreement will not restrict the trade in American products under the guise of so-called cultural protection?

Ambassador HILLS. I can assure you that we fight regularly to resist cultural exclusions and that we regard them as nothing more than protectionism. We do not anticipate a problem with the North American Free-Trade Agreement with Mexico. That has not been a position that Mexico has taken. It is a position that is being argued by many nations in the Uruguay round, and we have resisted it.

Mr. RUSSO. I am concerned because we gave it up in the case of the Canada Free-Trade Agreement at the last minute, indicating that we may again be prepared to give it up under the so-called cultural exclusions.

Ambassador HILLS. Mr. Russo, I would point out that we did not give it up in the Canadian agreement. Since we could not persuade

the Canadians to agree with our position, what we did was agree to disagree. We maintain our rights to bring cases against Canada and have done so, and have had some benefits flow from the results of our negotiations, for example, royalty payments on television rebroadcasting. Canada has maintained its right to disagree with us, but we have not given up the position, and I agree with the position that you take.

Mr. RUSSO. Thank you.

Let me just switch over to the Mexican Free-Trade Agreement; one of the things I am concerned about is workers' rights. As I understand it, there are no safety regulations for workers, no fair distribution of profits, and with two-thirds of the maquiladora workers being women whose babies are chronically premature and of low birth weight, these things raise some very serious flags for us, in terms of how we would negotiate a free trade agreement with the Mexicans.

There are no credible environmental standards. Toxic waste from foreign-owned industries are being dumped into Mexico's rivers, vacant land, and local sewage trenches. This is why I am very troubled with the fast-track process for the Mexican Free-Trade Agreement. I think there are a lot of questions that have to be answered just in those two areas, let alone other areas like the ones Charlie Rangel brought up, in terms of drugs.

How are negotiations going on those two issues, on workers' rights and environmental issues?

Ambassador HILLS. I think it is important that we understand the facts as they exist. On workers' rights, the Constitution of Mexico and some statutes provide the rough equivalent of an industrialized society for protecting the workers. There are minimum wages, laws against child labor, and a variety of protections that you would not find dissimilar from those that we have.

Mr. RUSSO. Except in the actual practice it does not work as well as ours.

Ambassador HILLS. Mexico is a poor country and so they are not achieving the same wage rate that the workers do in this country. The enforcement of workers' rights and environmental laws that are on the books, which are similarly to those that we have on our books, is not as aggressive.

We will see greater improvement in enforcement, with greater wealth of the country, and we think a greater wealth will come through a reduction of trade barriers. We have seen it in the past, that is to say, Mexico's economy has grown as it has brought down its trade barriers since 1986, when it joined the GATT.

So, we believe that by continuing to reduce their trade restrictions and making those reductions permanent in a trade agreement is the very best means of assuring continued economic growth, which will permit Mexico to enforce more effectively laws in those areas that you mention; workers' rights and the environment.

Mr. RUSSO. My biggest concern, Ambassador Hills, is that we can write things into law, but whether or not they enforce them is something else. They are having a problem right now enforcing these kinds of regulations that allegedly look like ours, but are not

enforced vigorously, and it only hurts their people and their environment.

One last question on what is happening with the negotiations with Japan. How are we proceeding on construction and legal services? It seems to me that we are still having a problem convincing the Japanese that they ought to open up those segments, at least the opportunity for us to compete with them on their own soil.

Ambassador HILLS. We are negotiating in the legal services area, and I am hopeful that we will achieve some market opening there. In construction, that is much more difficult. We seem to be having a great deal of difficulty in obtaining the kind of opening that we think is appropriate, and yet I can tell you that the negotiations are ongoing and teams will be in Japan very shortly.

Mr. RUSSO. Thank you, Ambassador.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman.

Ambassador Hills, I would only like to reiterate what some of my colleagues have said, that you are really one of the strong leaders and fighters in the whole GATT negotiations, and we Democrats feel very comfortable with you there representing our interests.

At the same time, I would like to comment on your comment in response to Mr. Rostenkowski. I think that the views reflected in this room concerning the Mexico or North American Free-Trade Agreement do not necessarily reflect the views stated on the floor of the House. I think that there is a lot more opposition on the floor, and we may need more than 1½ or 2 months to educate some of our colleagues about the North American Free-Trade Agreement. I think there is a lot of apprehension in the Congress. Even amongst my California delegation, as you know from a meeting that you attended last week, there is significant opposition beginning to build, because of the interests of labor, agriculture, and some others. The positive aspects of the free-trade agreement have not been explored.

I just mention that for your information, because there may be a reason to break up the two negotiations. Obviously, this would require some procedural changes, but it is something that I think should be considered, if, in fact, the votes are not there for the North American Free-Trade Agreement. I think it is critical that we continue GATT, but I do not believe that the Mexican agreement will be able to bootstrap itself onto the GATT discussions by way of one vote on this fast track. I think members will vote against the entire fast track, if the Mexican free-trade negotiations are subject to that procedure, unless something dramatic changes.

Ambassador HILLS. Well, I hope that we can be persuasive. I hope that we can explain the gains that will come from a North American Free-Trade Agreement, because every study that has been undertaken, and there have been many approaches used, show the gains that would come to our country and to Mexico, and we will gain by having Mexico be a stronger neighbor. We will gain in the environmental area, in the workers' rights area, and the drug area, because the problems we complain about are problems that are directly geared to their lack of prosperity and their lack of wealth.

Mr. MATSUI. I understand that, but I think these discussions will be much different from those regarding the Israel Free-Trade Agreement, the Caribbean Basin Initiative and the Canadian agreement. I think it is just going to require a lot of education.

Let me move over to a couple of other areas, if I may. I would like to also emphasize the cultural industries problem. We have discussed this before, but I would like to reiterate it again. I think we have to be very, very firm with respect to our European trading partners, that cultural industries must be involved as part of the GATT discussions. I think it is so critical that we cannot leave it pending.

I think with respect to the Canadian issue, for example, even though we have not capitulated in the United States-Canadian discussions, nevertheless, the Canadians are taking rather strong action and keeping out a lot of our movies, books, periodicals, and those kinds of things, restricting a free flow of information. I think it is imperative that we not give in on this and we stall the agreement with respect to the Europeans, if we cannot get them to allow the free flow of information. I think this is a critical an information flow issue.

Second, with respect to the Canadians, the Canadians, as you know, passed legislation, C. 58, which prohibits any Canadian business from deducting as an expense any advertising that goes into non-Canadian periodicals. I think that this is really offensive and may even be a violation of GATT. Something has to be done on this.

Obviously, if we have Canadian-United States-Mexican trade discussions, maybe the issue will come up again, but I would like to know whether we can do anything about it at this particular time. It just seems to me to be a very offensive action. If a Canadian periodical was published in the United States, and a United States company advertised in it, our denial of a deduction for that advertisement, to me, would be really offensive, from a tax policy stance and more particularly from a flow of information stance.

Ambassador HILLS. We think it is offensive, too, and are looking into our GATT remedies.

Mr. MATSUI. Here is the problem, though: Because the issue has been rendered nonnegotiable by the Canadians, there is really very little that we can do. Is there anything that you can do or anything that your staff is doing to try to reverse this situation?

Ambassador HILLS. When a country treats us differently than it treats its nationals, that is a discrimination and does not give us the same sort of treatment, we look to see whether we can bring actions under the GATT agreement, and we have protested strongly to the Canadian Government about this.

Mr. MATSUI. I hope we do something, because my concern is that if we give you fast-track approval and the cultural industries concerns not addressed, particularly because we cannot agree with respect to the Europeans, and specifically the French, then I am afraid that the same kind of problem will recur say 2, 3, or 4 years down the road. We will be in the same position then as we are today, where cultural industry concerns are not addressed as part of an agreement, and in addition we will have no leverage regarding these important issues. The movie industry, the book publish-

ing industry, and the recording industry are large industries in the United States, and something obviously has to be done to protect their interests regarding their right to export.

Ambassador HILLS. I wholly sympathize with you. I can only say that not to have free-trade agreements, to have fewer markets which are open, only compounds the problem. Not to negotiate at all and say we fear that we will not be able to negotiate one aspect of an agreement leaves us in a worse position across a broad spectrum of trade.

Mr. MATSUI. Ambassador Hills, I understand, and that is why I support the discussions with respect to GATT. But my concern is that somehow these cultural issues seem to drop in priority, as we get closer to the end, and I want to make sure that they remain a high priority.

Ambassador HILLS. Let me assure you that they do not drop in authority. There is a very strong feeling by our trading partners against our opposition, and we fight very, very hard. But I agree with you that these cultural exceptions are protections.

Mr. MATSUI. I want us just to be as tough with respect to coultural issues as the Japanese are with respect to rice.

Chairman ROSTENKOWSKI. Mr. McGrath.

Mr. MCGRATH. Thank you, Mr. Chairman.

Welcome, Madam Ambassador. To those who articulate the concerns of accomplishing a free-trade agreement with Mexico, in terms of workers' rights and compensation and the environment, do you not feel that the negotiating of such issues between our country and their country would improve the conditions that they are concerned about?

Ambassador HILLS. Absolutely. I believe that by negotiating a reduction in trade restrictions, that we will generate jobs on both sides of the border, and the greatest impediment that Mexico has in dealing, for example, with the environment, is lack of resources. We have no complaint with their 1988 Environmental Protection Act. We have no complaint with their lack of cooperation. This is not a recalcitrant government. We have entered into, as recently as November 1990, into a binational program to create a master plan for the border. It is only resources that Mexico lacks that causes us to have concern bout environmental enforement.

At the same time, let me say I want to reach out to the environmental groups and the the other groups that express concerns, because I think that we can find ways to maximize the remedies for the concerns that they have.

Mr. MCGRATH. Concerning the word "financial resources," some would argue what is the big deal of creating a market with Mexico, they do not have enough money to buy any of our products, regardless of the fact that they are our third largest trading partner and have increased their investment in our products by $7 billion over the last year. What can you say to those who would make the argument that it is not worth opening up a free-trade agreement with Mexico, it is not worth the effort, given all of the other constraints, because they are such a poor nation that they cannot buy our goods?

Ambassador HILLS. The very facts that you mention to disprove that allegation. Mexico started reducing its trade barriers in 1986,

and in the past 4 years our exports to Mexico have doubled, from $12 to $28 billion. They are a good customer, our third largest. We know that their restrictions are more than twice as high as ours at the border, and were they brought down, our exports would go much, much higher.

Every billion dollars of exports translates into 20,000 jobs, so it is absolutely assured that there would be a benefit to the United States economy and to our workers, if we have a free-trade agreement with Mexico. There will also be benefits to Mexico.

Mr. McGRATH. One further question. Regarding the point that was brought up by my colleague, Mr. Matsui, in terms of the bifurcating of the GATT extension through fast track and the free-trade agreement, it seems to me that we are really rolling the dice here. We have 4 years of investment in GATT, and not yet an agreement with Mexico, and yet all of it is predicated upon getting this fast-track extension.

I am just wondering out loud whether or not anybody is willing, because the procedure does not allow at the present time for bifurcating this issue, whether or not anybody is willing to trash the 4 years of investment in GATT, because they are unwilling to negotiate a free-trade agreement at this particular point in time with Mexico, even though we still have the opportunity to turn it down after those negotiations. I wonder if you have anything to say regarding that aspect.

Ambassador HILLS. I think it would be very sad to take away the procedure by which this administration, working with Congress, can get markets opened. The 1988 Trade Act set forth some objectives, marketing opening and expansion of our exports. We have done an analysis and can document that we will achieve those objectives, and we want to work with Congress to try to do so.

If we fail, then the agreement should not be approved. But not to let us try to negotiate a good agreement really works against our economic best interest, particularly at a time when we know that our exports are contributing to our GNP growth.

So, we should be anxious to open all markets, the markets of rich countries and the markets of poor countries. Indeed, most of our entrepreneurs will say that the problems that they have in exporting are often less with the affluent nations and more with the developing nations. Here we have an opportunity to reduce the restrictions in trade with a southern neighbor, a good neighbor, where, as they have reduced their restrictions to date, our exports have doubled. We want to bring those restrictions down further, so that our exports can further escalate and jobs can be created.

If we fail to accomplish our objectives, this body can vote the agreement down by a simple majority.

Chairman ROSTENKOWSKI. Mr. Cardin will inquire.

Mr. CARDIN. Thank you, Mr. Chairman.

Ambassador Hills, I also want to share my appreciation, as a newer member of the committee, with the openness of your agency in getting us information concerning the trade negotiations. It has been extremely helpful to us.

The President is asking for the extension of fast-track authority for 2 years, as provided by law. I am wondering if you could be a little bit more specific as to how much time you envision will be

needed in the GATT discussions. We came pretty close to at least reaching certain issues prior to the December ministerial meetings, and I am just wondering whether we are just going 2 years and then try to reach an agreement again, or what would happen during the next 2 years, as you perceive the negotiations of GATT.

Ambassador HILLS. We have a lot of work to do. The inability of Europe for roughly 2 years to deal with reductions of export subsidies and the barriers to market access have really backed up the negotiations that would lead to access for our manufactured sector, access for service providers, good protection of our intellectual property, and rules governing government procurement.

Most nations negotiating have been unwilling to talk about opening their markets for manufactured goods or for service providers, until they were assured that nations at the bargaining table there were prepared to talk about access for their agricultural goods. That is, in fact, what broke up the ministerial meeting in Brussels.

I think we have a lot of work to do. We could do it on our own quite rapidly. Quite honestly, this debate over fast track has led us to put more emphasis on technical negotiations, rather than on the real political and substantive negotiations, because, again, our partners are waiting to see whether or not we can, in fact, negotiate.

Mr. CARDIN. Do you envision that if fast track is extended, that there will be a specific date that will be established by the GATT members for trying to reach an agreement?

Ambassador HILLS. That will certainly be one of the early discussions.

Mr. CARDIN. Do you envision that would be somewhat sooner than 2 years from now, or is that difficult to tell at this particular moment?

Ambassador HILLS. I think the governing factor is whether the European Community will move far enough in their farm reform to enable them to make multilateral commitments.

Mr. CARDIN. Obviously, we all have individual concerns, and I think one of the things in order to get this authority passed, is we need to talk about issues that are very sensitive in our various communities. We are all very concerned about the subsidies in Europe.

I happen to represent a district that has one of the last sugar refineries that remains on the east coast of the United States, and they are very concerned about section 22 enforcement measures that have been there to help U.S. refiners of sugar, which admittedly is a subsidy of sorts, but in the world economy on sugar it is one of the equalizing factors. They are concerned that on the bargaining table there might be section 22 from the U.S. perspective, but without the help internationally on the price of raw sugar.

I am wondering whether you can give any assurances as to how the process will work, if fast track is extended, where issues like this will be discussed and hopefully resolved and assurances given to U.S. refiners.

Ambassador HILLS. We have said quite specifically that we will put our agricultural restrictions on the table, if our partners put their restrictions with respect to agriculture on the table. We will not unilaterally disarm. If we put section 22 on the table, which we have as a result of a waiver from the GATT, we would expect

Europe to put its variable levy and the other mechanisms which restrict the flow of agricultural products also on the table. That is what has been a very, very difficult negotiation with our European colleagues.

Mr. CARDIN. Thank you, Madam Ambassador.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Pease may inquire.

Mr. PEASE. Thank you very much, Mr. Chairman.

Ambassador Hills, welcome. You and I seem to carry on dialog over the top of this dais many, many times, and I always find those dialogs stimulating.

Let me say, first of all, that I am supportive of an extension of fast track for the Uruguay round. I think you made a lot of progress in the Uruguay round and I would like to see that progress continued, and I would hope that you might reach a successful conclusion.

As you know, I am not supportive of an extension of fast track for Mexico, because of some very serious questions that I have. I need not go over those again, as we have discussed them many times.

I would like to share with you a hypothetical, at the end of which I would like to ask a question. Let us assume that the North American Free-Trade Agreement is negotiated according to an agenda that includes tariff and nontariff barriers, investment restrictions, intellectual property rights and dispute settlement, that is, the things that you have outlined previously.

Let us also assume that there are two foreign-owned companies in Mexico City that manufacture competing products, widgets, let us say. One company is American owned and the other is, let us say, Japanese owned. The United States company is adhering to Mexican OSHA and environmental standards, and the Japanese company is not. As a result, the Japanese firm has cut its cost of production to the extent that its widgets are out-competing the United States firm's widgets.

With this hypothetical in mind, would you agree that in this case the lax regulatory environment in Mexico directly impacts the commercial operations of the United States-owned company, and that the lack of standards enforcement in Mexico in the areas of environment and occupational safety and health qualifies as a trade and business-related issue?

Ambassador HILLS. First of all, I would like to get the hypothetical clarified because we can't presume that there are no worker rights standards in a country——

Mr. PEASE. I am not talking about standards. I am talking about enforcement of the standards.

Ambassador HILLS. If you were running the United States widget factory and you knew your competitor was not abiding by the laws that were on the books in Mexico, you would have clear recourse to report that, and that would cause enforcement to take place. One of the complaints is that they don't have enough inspectors to go around and find the violations that are occurring. But under your hypothetical, your U.S. company knows that it has additional costs because of lack of enforcement, and a simple reporting would take care of the problem.

Mr. PEASE. To whom would the U.S. company report?

Ambassador HILLS. To the Environmental Protection Agency in Mexico, which is doing a very good job, which relies upon a 1988 act and regulations, and to the Commission on Workers Rights. Most of those laws are in the Constitution.

Mr. PEASE. So the United States company would have to rely on the efficiency of a Mexican agency enforcing Mexican laws, even though the evidence is to the contrary.

Let me ask you one other question. My time is about to expire. You mentioned that gains from the free-trade agreement with Mexico are legion in that I think you said every study has shown that there are gains. What about the manufacturing worker in Ohio, Michigan, Indiana, Illinois, the Northeast, Midwest generally, who has a relatively high-paying job in the manufacturing sector, does not have a college education, he has children coming along who might hope to succeed the parent in that manufacturing job. These children may not plan to go to college either, may not be capable of college but would like to have a decent standard of living anyhow?

How would a United States-Mexico Free-Trade Agreement impact that worker and that worker's children in a positive way?

Ambassador HILLS. We think that the North American Free-Trade Agreement will actually strengthen our manufacturing sector, which is today at the peak of its strength when looked at since World War II. We believe that your worker may have a better chance for a higher paying job if his company can have a collaborative arrangement with Mexico.

You know, these companies that are in your hypotheticals either invest in Mexico or do not invest in Mexico because they believe it is in their interest to do so. If they don't believe it is in their interest to do so, they won't. There is nothing that is changed by reason of the free-trade agreement. Right now that concern in Ohio can go to Mexico if it believes that it can get a better return by going to Mexico.

Mr. PEASE. Madam Ambassador, I am trying to draw a distinction between what is good for the companies—they will always make their investment decisions based on what is good for them—and what is good for the workers in those companies, the people who vote for Members of Congress or don't vote for Members of Congress every 2 years.

Ambassador HILLS. We believe that the free-trade agreement is demonstrably good for American business and good for American workers. The Clopper-Allman study shows that we have a net gain of jobs over a decade by reason of the North American Free-Trade Agreement, and we know that there are companies that have been made stronger economically by reason of having a collaborative arrangement with Mexico. We also know that that is true in Europe; that the German companies have had an opportunity, through collaborative arrangements with Portugal, Greece, and Spain. We also know that Japan has had collaborative arrangements out in East Asia, so that they have had component parts made in lower-wage environments.

We know that we will secure those benefits, and our studies document that.

Mr. PEASE. Madam Ambassador, my time is up, but I would just say that your being so convinced that your case is right and apparent inability to see the concern that I am raising on behalf of middle-class American manufacturing workers just increases and intensifies my concern about this whole United States-Mexico Free-Trade Agreement discussion.

Thank you.

Chairman ROSTENKOWSKI. Mr. Chandler will inquire.

Mr. FORD. Mr. Chairman, could I ask for a unanimous-consent request, or would Mr. Chandler yield?

Mr. CHANDLER. I would be glad to yield.

Mr. FORD. Mr. Chairman, I would like to ask that my opening statement be made a part of the record. I would like to ask for a unanimous request. I have to leave, Mr. Chairman, and will not be here.

Chairman ROSTENKOWSKI. Without objection, so ordered.

[Mr. Ford's opening statement appears earlier in the hearing.]

Mr. FORD. I would like to also thank the Ambassador for testifying before the committee and also would like to submit a couple of questions that are very lengthy to your staff, and maybe you can respond back to those, Madam Ambassador.

Ambassador HILLS. I would be pleased to.

Mr. FORD. Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Without objection, so ordered.

[The questions and responses follow:]

QUESTIONS FOR THE RECORD BY REP. HAROLD FORD

QUESTION

Ambassador Hills, in your letter of February 19th you wrote, "U.S. agencies, including the Environmental Protection Agency and the Departments of Justice, State and Labor, are already actively engaged in working with Mexico on such important issues as the environment, narcotics, immigration, human rights and worker standards. With the exception of large-scale labor mobility, which has been ruled off the table for these negotiations, we have an open mind on how to deal with these non-trade issues, whether through existing mechanisms or through trade agreements."

I am concerned that you view the environment, narcotics, immigration, human rights and workers standards as "non-trade" issues. Some of the signers of the "Pease letter" consider workers standards as much of a trade issues as the value of the dollar. How much we export depends on how much we produce. If, as a result of a free trade agreement with Mexico, American corporations shift their production plants to Mexico, then we will produce less, export less, and import more. This scenario is quite possible, since the average American worker earns $10.47 per hour and the average Mexican workers earns 57 cents an hour.

In the last year alone, over 1.2 million American workers lost their jobs. What assurances can you give me, Ms. Hills, that a free trade agreement will not bring more job opportunities to Mexican workers at the expense of American workers?

ANSWER

The studies we have seen show that the overall impact on the U.S. economy of an FTA will be positive. Particularly with respect to labor, the analyses show that an FTA with Mexico will be a net creator of U.S. jobs. A study prepared by Dr. Clopper Almon under contract for the Department of Labor shows that, over a 10-year period, an FTA with Mexico should result in a net increase of 44,000 to 64,000 jobs, the bulk of them in manufacturing. Of course, in an economy with over 118 million workers, this is a relatively small positive impact. That the effect is small is not surprising, since Mexico's economy is only about 1/25 the size of the U.S. economy and imports from Mexico now account for only about 6 percent of total U.S. imports, despite the fact that much of these imports enter duty free or at relatively low duty levels.

One reason U.S. workers stand to gain is that Mexican trade barriers are higher than those in the United States. Eliminating these barriers should result in increased U.S. exports, exports

that will help generate jobs in the United States. We have already seen the benefits of Mexico's unilateral steps to open its economy. Since Mexico started its trade liberalization in 1986, U.S. exports to Mexico have more than doubled--from $12.4 billion in 1986 to $28.4 billion in 1990. It is estimated that each $1 billion worth of merchandise exports generates over 20,000 U.S. jobs.

That said, we recognize that there will likely be sectors that face increased competitive pressures from Mexico. We will ensure that those sectors have sufficient time to adjust. Where there are sensitive areas, nothing we negotiate will be implemented overnight. We will ensure that any agreement will be phased in over time and will provide an effective mechanism to protect against import surges. In the U.S.-Canada FTA, for example, many tariff cuts were phased in over a 10-year period. Where there are sensitive areas with Mexico, we might seek to go beyond 10 years.

QUESTION

Ambassador Hills, we all know that trade levels depend on the strength of national economies. That is one of the reasons I support free trade agreements, to stimulate economies with increase opportunities.

But I also question the value of separating issues like the environment, narcotics, and human rights from economic discussions. Some of us in the Congress contend that the strength of national economies depends a lot on the levels of drug use in a society, the fiscal soundness of environmental planning, and the human rights guarantees that must precede a free market system. These are economic issues, and therefore trade issues. I do not wish to debate these issues with you here today, but I do ask that you reconsider your position stated in the February 19th letter, when you termed these subjects "non-trade" issues.

ANSWER -

The United States and Mexico have a broad bilateral agenda and we share a common goal of an improved way of life, both economically and socially, for our people. As I noted in my February 19 letter, we share your commitment to making progress across the spectrum of our bilateral agenda.

When I used the phrase "non-trade" issues, I was using a short-hand term to refer to issues that traditionally have not been incorporated in trade agreements. It was not meant to downplay the importance of these issues, or to prejudge how they should be considered in our overall bilateral relationship. I recognize that progress on each front helps our trade interests. I similarly believe that progress on trade issues helps us make progress in those other areas.

As I noted in my February 19 letter, agencies throughout the government are working in their areas of expertise to promote our broad bilateral agenda in areas such as the environment, narcotics, labor standards and human rights. We have been consulting with the Congress and the private sector on how best to address these issues, whether within the context of the trade agreement or through parallel efforts, either through existing channels or in new mechanisms. We will complete these consultations and announce our plans for dealing with these issues before the Congress finishes it deliberations on the request for extension of the fast track authority.

Chairman ROSTENKOWSKI. Mr. Chandler.

Mr. CHANDLER. Thank you, Mr. Chairman.

Ambassador Hills, I would like to inquire concerning the effect of the extension of fast-track authority on the 301 processes and special 301, specific to a concern you are aware of regarding the beer brewers in the United States, the Canadian Provincial Liquor Control Board in the case of both Alberta and British Columbia, adding what are called cost of service fees to imported beers, fees which can add significantly to the cost of a United States-produced beer on the shelves in Canada.

If you could comment on that and if I could inquire as to what action you are currently taking or plan to take in this regard?

Ambassador HILLS. We have protested to Canada regarding these provincial activities. Sometimes we have been successful in causing the Federal Government to persuade the province to change its ways. We do have a protest in with respect to beer now in Canada.

Mr. CHANDLER. What time frame would you expect for this to come to resolution?

Ambassador HILLS. We are evaluating a 301 petition.

Mr. CHANDLER. Right.

Ambassador HILLS. I can't tell you the precise date when the final decision has to be made. As you know, under the statute, it is a year's period of time and my recollection was that the filing was last fall.

Mr. CHANDLER. As I recall the Canadian Free-Trade Agreement, there were even some special concessions made to Canadian brewers, so that they already have some concessions in the agreement, isn't that correct?

Ambassador HILLS. I'm not aware of any particular concession that they have that we do not enjoy.

Mr. CHANDLER. No. That would be correct, but those concessions were placed in the agreement because of the concern of the Canadians. So that that's already in place.

Also, you've probably already answered this question, and I certainly agree with the gentleman from Florida, Mr. Gibbons, and his comments and would like to associate myself with them.

In terms of the GATT negotiations, how many, if any of our trading partners' negotiators are negotiating without a similar fast-track authority? Is it to be assumed that everyone we sit down and negotiate with also has the same authority this administration seeks from Congress?

Ambassador HILLS. Most of the governments we're negotiating with are parliamentary forms of governments, so that they don't require fast track. We have a government based on separation of powers with the executive branch negotiating with foreign powers and the legislative branch approving the arrangements dealing with international commerce. Hence, we need to have our negotiator have the authority to strike a deal which then, the legislative branch either accepts or rejects.

Mr. CHANDLER. Mr. Chairman, thank you, very much.

Mr. GIBBONS [presiding]. I want to thank you, Mr. Chandler for a very perceptive question. It's really the difference in out style of government that makes this necessary. That's a quick summary of where we are.

Mr. Moody.

Mr. MOODY. Thank you, Mr. Chairman.

Madam Ambassador, last time you were here I asked you about the ITC study that said that low-skilled workers in America would, in fact, lose out. There are winners and losers, obviously, in almost any trade change. And I cited the claim that "low-skilled" workers could cover as much as 70 percent of the work force, and you were going to check on that. I don't know if you have had a chance to do that, but I am still hopeful that you will get a reply to me. That is a very large fraction of the work force that is involved.

Ambassador HILLS. Yes, I did check on that, Mr. Moody. I have understood from the International Trade Commission that there is no assertion that that 70 percent of the workforce was unskilled. That report that you and I read earlier was based upon a preliminary estimate. It was based upon an assumption. When they went to actual data that dealt with the elasticity of goods imported from Mexico and from the United States, they found that, in fact, unskilled as well as the skilled workers would have a real wage gain.

Mr. MOODY. So it's a uniform gain? Every segment of our work force will gain, there will be no losers, even though we are competing with a very low-wage society?

Ambassador HILLS. That is correct.

Mr. MOODY. Well, maybe you can share that study with me, or that reasoning. I won't take your time now on that but I would appreciate looking at that.

On another matter that we discussed at your same appearance here, we discussed the issue of workers rights, and the right to unionize and organize so that the wage of Mexican workers approaches their marginal revenue product, so that the value of what they did was reflected in their wage. We know that when a monopolist doesn't have to pay a wage equal to marginal revenue product he usually won't. So that worker rights and unionization rights were an important feature. And you took that comment under advisement. Do you have any followup points on that one?

Ambassador HILLS. Only that you asked whether there were studies on the marginal productivity of the Mexican worker and we were unable to find any particular study. Although we would say that the drive toward market-oriented policies would tend to correct the underemployment and then enable the wage rate to show the actual productivity differential which is very substantial.

Mr. MOODY. Right. Do you see a role for us to have strong views on worker rights, therefore? Or do you think the economy will take care of it through just reducing slack employment in the economy in Mexico?

Ambassador HILLS. Well, I draw a distinction between workers' rights and workers' productivity. On the workers' rights, those rights are in the Mexican Constitution and this administration, that is the Salinas administration, has taken the workers' rights issue quite seriously. We have a binational commission that looks at labor rights with the Secretaries of Labor addressing these issues. But there are guarantees, both in the Mexican Constitution, and in Mexican statutes that deal with child labor, minimum wage, protection of workers, and those rights are in their law. It has earlier been mentioned that the enforcement is not at the level that

we would like. I would only say that that points out the need to have added resources and greater wealth which we hope would come from a Mexican Free-Trade Agreement.

Mr. MOODY. Well, greater wealth probably won't accomplish that, unless there is a serious political will to use that wealth to enforce those rights. My point was earlier, when we met here earlier, that typically in Mexico, the labor unions are house unions, in-house unions. They are very weak and there is a big wedge between value of workers' productivity and their actual take-home wage because of the monopolistic powers and weak labor bargaining leverage.

And unless that wedge is narrowed, through the ability of labor unions to become real unions in Mexico, that condition will continue and, therefore, provide unfair competition. That's what I was trying to get at in an earlier meeting. I'm sure there are rules on the books in Mexico. But maybe at another time, someone from your office could delve into this with me in more detail. I would appreciate the chance to do that.

Ambassador HILLS. I would be delighted to talk to you further about it. I think we do have some data that would respond to your interests.

Mr. MOODY. Thank you.

Mr. GIBBONS. Mr. Grandy.

Mr. GRANDY. Thank you, Mr. Chairman.

Madam Ambassador, you know, I am a large supporter of the North American Free-Trade Agreement, and I won't take up your time or my time by reprising all the reasons why. Just suffice it to say that if we are talking about jobs, Iowa State University estimates that $4 billion of farm income will be lost if a GATT agreement is not concluded. And there will probably be some jobs associated with that loss, as well.

But I want now to concentrate on that agreement because if you read Mr. Schulze's letter, he did raise a point that I think is worth talking about here and something that I would like you to get into some detail on. There is some feeling that the United States needs the GATT agreement more than Europe does. The argument being, why should the Europeans even bother doing anything other than stall because they would be harmonizing their own markets and be enjoying, at least until or if we negotiate a free-trade agreement with Mexico, the largest GNP in the world.

What I would like you to do in answering the question is highlight for the committee and for the record what happened between December, when you walked away from negotiations, and now, when you are going back to the table with supposedly an enlightened proposal on the table, courtesy of the Europeans, what got them to negotiate?

Ambassador HILLS. I think two things. One is their common agricultural program is breaking the bank. It went up in cost by 20 percent and it is, consuming over 60 percent of the EC budget. Second, it did not do as advertised, that is, stabilize supply and demand. Supplies have been filling every food locker and there is no more space to put the over-supplies of grains, oilseeds, meat and dairy. So that Europe really came to the resolution that it's going to have to have a reform on its internal supports.

Further, I think that Europe does see the gains that come out of a GATT agreement. Our economic calculations show that a successful agreement would grow the global economy by some $5 trillion, and Europe's share of that, over a decade, would be roughly $1 trillion.

I think there was a recognition that it could not have a successful agreement unless it would deal with the agricultural issues because if it did not deal with the agricultural issues the Latin American countries and the 14 members of the Cairns Group would not return to the bargaining table. That would prevent Europe, as well as the United States, from achieving its objective of increased access into those markets.

Mr. GRANDY. Let me ask you this then. Assuming that they know that they might be losing a potentially lucrative market in South America, are not the Europeans also at least curious about what we may be, not just negotiating with Mexico as a free-trade agreement, but as a precedent for a hemispheric trade agreement between north and south?

I mean I would think there would be a certain amount of cross pressure on the Europeans as they see us move to a similar kind of strategy, to at least keep the door open through the GATT negotiation. Would you agree with that?

Ambassador HILLS. I think that there has been a considerable interest in our negotiations in this hemisphere.

Mr. GRANDY. So, in one sense, to keep the two negotiations alive together allows for a certain cross pressure back and forth?

Ambassador HILLS. I think it is useful.

Mr. GRANDY. Thank you, Madam Ambassador.

Thank you, Mr. Chairman.

Mr. GIBBONS. Next, we go to Mr. Levin and then to Mr. McDermott, and then to Mrs. Johnson.

Mr. LEVIN. Thank you, Mr. Chairman.

Welcome, Madam Ambassador.

Ambassador HILLS. Thank you.

Mr. LEVIN. This may be the beginning of a historic debate and it seems to me that we should be clear what's true and what isn't; what we're talking about and what we're not. We are not talking about one procedure, but clearly two different types of sets of negotiations, one being the GATT—and I think we need an extension there, but as I've discussed with you, also some clear discussions with Congress on particular subject matters—and the other, Mexico, which clearly is a different cup of tea from GATT, where you have numerous countries.

The question is not your hard work or your consultation. You do both splendidly. It is a question of roles here. What fast track does is to somewhat shift the balance of power—I think more than somewhat—to the administration. The United States-Canada negotiations were a good example, where we ended up, many of us, with some deep problems with an agreement in the auto sectors being told that we could take it or leave it.

I voted yes. There were some real problems with parts of the agreement which haven't been rectified to this day. So it's a question of roles and power relationships, not your willingness to consult.

Another point, concern about Mexico is not limited to the AFL-CIO. There are other sectors and other groups that are concerned about it. And I don't think that we ought to diminish the importance by setting up a straw man. Fast track in labor negotiations is a totally different issue. There's regular consultation between the leadership and the bargaining committees. Here, we're talking about the United States, the administration, and Congress. When we give you fast track, it enhances your authority and diminishes our role in an important respect. That's the purpose of fast track.

It isn't just an issue of workers' rights. I think the letter from the chairman and Senator Bentsen is a very good one. We're talking, though, about more than employee rights. We're talking about the manufacturing industry in this country—business as well as employees. And you raise part of the issue. You say, manufacturing is at its peak. As you know, those are aggregate figures which a lot of us think are inaccurate or may be. But at best they are aggregate. While some manufacturing and industrial sectors or subsectors are in strong shape today, others are not. And it is foolish for us to ignore that. It's business people telling me that, not just labor unions or employees, whether it is semiconductor or the automobile industry. And for us to just simply quote aggregate figures and not understand what's happening in this country is, in my judgment, terribly short-sighted.

What's being proposed with Mexico—and we shouldn't trivialize it—it's going to mean a regionalization. Let me just quote from a study that favors it, the one by Mr. Womack of MIT, so that we understand what's going on here.

He says, in broad-brush terms we may expect to see the North American—he's taking motor, he could have studied others—industry reconfigure itself along the following lines. Production of entry-level vehicles, both cars and light trucks, will be concentrated in north central Mexico. What is more, a high fraction of the total value of these vehicles will be produced at nearby component plants in Mexico while the more expensive vehicles will be produced, as he says, in the Midwest or in other parts of the United States.

This represents some major change and we shouldn't deny it, and we should talk seriously about its impact, in this case in the auto industry. We could talk about the glass industry or the apparel industry or horticulture where there will be some shifts. And we shouldn't simply deny that we're dealing here with the economic future of this country. We have an obligation to ask hard questions about what's in it for the United States.

So I want to ask you, as I finish up, my time is coming to a close, whether you are undertaking, on your own, some econometric modeling of what's likely to be the impact of a United States-Mexico or United States-Canada-Mexico agreement on a number of key subsectors within the American economy? Who is doing them and when they will be ready?

In addition to your response to the chairman's letter, it seems to me that we need a response to these issues. I think what I'll do, as a supplement to this letter, is to send you a series of questions, OK? I enjoy working with you. You are so serious and you care. So I'm going to send you these questions, but let me ask you——

Mr. GIBBONS. I am afraid the gentleman's time has expired.

Mr. LEVIN. OK. Are you preparing some models that will tell us what's likely to happen?

Ambassador HILLS. We, at USTR, with 154 people are not, ourselves, preparing the models. Models are being prepared and many studies have been undertaken. Our chief economist has reviewed the studies that are available and is working with the economists that have already completed studies. Indeed, Dr. Walters, David Walters was able to find an error summarized in one of the studies that did deal with 55 of the sectors.

But let me say quite sincerely. Your one point is that the concerns are broader than just the AFL–CIO and I agree with that. We want to reach out to those groups who are concerned. We believe that we have ways of dealing with the issues that are of concern.

Second, let's draw a distinction between those things that occur and will occur even without a free-trade agreement and those things that will occur as a result of a free-trade agreement. Our economy is dynamic and there are changes going on in the manufacturing sector of which you and I are both aware; changes that are occurring that may not please you. There is investment going to East Asia, to Korea, because we are under global competition. There is investment going to Mexico, because there's no restriction, particularly in the auto industry, for that industry to go to Mexico, nor has there been for 50 years.

Indeed our tariffs on autos are roughly 2.5 percent. So that if the auto industry wanted tomorrow, or wanted yesterday to relocate in Mexico because it thought it had clear and obvious advantage, it could have, and would have done so.

But it has stayed here because it is more productive to stay here. We have greater availability of capital, more engineers and better educated workers, and we have better education, better roadways, better communications facilities that include the telephone so that we can do just-in-time inventory. Yes, the subcompact car has largely moved south to Mexico, and the free-trade agreement wasn't the cause of it, nor would it prevent it.

So I would like to deal with the issues that are going to occur as a result of the free-trade agreement. Our study on motor vehicles show that there will be a slight attrition of employment if we do nothing; that the job levels will go from roughly 830,000 to 801,000 over the next decade in motor cars. But that with a free-trade agreement, we will gain, roughly 4,900 jobs in the auto sector.

Mr. LEVIN. Whose study is that?

Ambassador HILLS. This is the Clopper-Almon study.

Mr. LEVIN. OK.

Ambassador HILLS. So that as a result of the free-trade agreement, you actually will have more jobs in the auto sector than if you don't have the free-trade agreement. It is very important to distinguish the problems that are being created because of the dynamism in our economy and not assign them as being caused by the free-trade agreement. Those problems will occur because the economy is dynamic.

Mr. LEVIN. In this debate, we will do just that.

Mr. GIBBONS. Mr. Levin, I'm sorry.

Mr. LEVIN. We're done.

Mr. GIBBONS. I've got six more Democrats that have to be called on.

Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

Madam Ambassador, I want to assure you that there is something worse than Ways and Means. The Banking Committee has 51 members to ask questions.

I would like to explore a little bit the issue of the environment. As I was coming to work this morning, I listened to a story on the radio about the Chilean grape controversy of some years ago. I am interested to understand whether in the GATT agreements there is any real exploration of environmental controls as a means by which products can be excluded.

For instance, if they are using a particular herbicide or insecticide in a given country, is that a means by which the country can say we have a tariff against such things which would prohibit it from being brought in? Is there any provision like that in GATT?

Ambassador HILLS. At the current time, we are trying to negotiate effective sanitary measures that would require that there be a scientific base when a nation keeps a product out on the grounds that it presents a health or safety violation. That type of measure deals with the problem where there is an allegation that food is tainted, when, in fact, it is not, and the allegation is a trade restriction, rather than a consumer protection.

We have a registration system in this country for pesticides and herbicides. If the human tolerances have not been established, the food simply may not come in. It is not a question of putting a tariff on and letting it come in at a higher cost. It is banned, and we have had examples of that in the past.

Mr. MCDERMOTT. If I understand it correctly, if the manufacturer of a particular kind of herbicide or insecticide in this country is prohibited from using that chemical in this country; but is dumping it or selling it in other countries, or if it is used on a product that is then brought to the United States, it is prohibited from entry?

Ambassador HILLS. If that chemical has not been registered in this country and approved by FDA for its human tolerances or the food product has traces that exceed the tolerances established, the food product may not come in. That was the problem that we had with procymodone, the chemical that was manufactured by Sumitomo, which had failed to establish tolerances under our laws.

A domestic manufacture of a herbicide or pesticides must also establish tolerances under our law, and a foreign manufacturer of herbicides or pesticides must establish the appropriate tolerances under our law. We keep products out that do not meet our standards.

Mr. MCDERMOTT. Now, we have the law and you tell me you have the regulations. Let us go to enforcement. The question then is how much is that enforced, how vigorously is it enforced, what are the objections—there is a good deal of concern in the environmental community about the North American Free-Trade Agreement, that getting more and more agricultural products from Mexico will bring back in the kinds of things that we have banned

in this country in the agricultural area, and I really want to hear your thinking about that.

Ambassador HILLS. I would like to talk more to the environmentalists and intend to do that, but in our discussions with FDA and various groups that deal with importing of food, they find some violations in Mexico and some violations in California, and the violation rate is roughly the same, but the testing is also exactly the same. Our agencies think that they are fairly effective at the border to keep food out that is tainted.

Mr. MCDERMOTT. Is it your testimony that they are applying the same testing standards on American agricultural products as they are on incoming foreign products?

Ambassador HILLS. Yes.

Mr. MCDERMOTT. FDA?

Ambassador HILLS. Yes, absolutely. Now, if foreign products use chemicals that are not approved for use in this country, those chemicals must establish the tolerance levels that are appropriate by our scientific rules here.

Mr. MCDERMOTT. Thank you very much.

Thank you, Mr. Chairman.

Mr. GIBBONS. Mrs. Johnson.

Mrs. JOHNSON. Thank you, Mr. Chairman.

Welcome, Ambassador Hills. As one who represents a part of the Nation that is having a very tough time economically and also a State that has enjoyed significant economic benefits from increasing our share of the export market, I believe one of the best things I can do for the people I represent is support your fast-track authority. I appreciate the clarity of your testimony today and the degree to which I think you have helped to separate a number of issues that do threaten the passage of the bill granting that authority.

That much said, I certainly have concerns about a United States-Mexican agreement, and they are not unlike the concerns I had about the United States-Canadian agreement. I certainly would not want Mexico to become an export platform for other nations to gain backdoor access to United States markets.

I am also keenly aware that when you negotiated the United States-Canadian agreement, that there were lots of opportunities for consultation, and it appears to me from reading parts of your testimony that you actually did not convey today that there is more opportunity and more, in a sense, legal pressure for you to consult with us, if you have fast-track authority, than perhaps otherwise, and this issue of consultation I think is key to our deliberations.

If the agreement you are negotiating is your only chance, it seems to me it puts pressure on you to consult with us. If you know and your opponents know that it is going to take some shape once it gets to Congress, it does not put much pressure on you to talk to us, and it certainly does not give much hope to our partners that big sacrifices will be recognized with commensurate gains.

So, I appreciate the importance of your having fast-track authority, but I think also the law is quite compelling under fast track, is it not, that you must consult with us? A brief answer, because I have a follow up question.

Ambassador HILLS. Yes. [Laughter.]

Mrs. JOHNSON. Thank you. Is there any overall strategy, particularly in regard to Mexico, to deal with the unprecedented numbers of GSP petitions that are coming from that nation, because if we grant all those petitions, as we generally do, we will provide them with certain benefits for which we get no commensurate benefit or we get nothing, because we are not at the table, we are just granting their petitions under our law? Do you have any view with which you are viewing these petitions, considering that we might be going into negotiations with them?

Ambassador HILLS. We look at the GSP benefits under the statutory criteria and, where those items are not sensitive, we think there is a benefit to granting them. We would not want to penalize Mexico, which has unilaterally brought down its trade restrictions in a forthright manner, and hold back GSP, if it meets the statutory requirements.

Mexico has gone a long way in reducing unilaterally its trade restrictions. Keep in mind that it was only 4 years ago that its tariffs were 100 percent, its import licensing covered about 8,000 items, and the state owned a tremendous portion of the productive economy. So, we would want to work with Mexico and not penalize it.

Mrs. JOHNSON. But in those areas where it might be sensitive or relate to benefits that we might wish to gain in negotiations, you could hold back the granting of those GSP's?

Ambassador HILLS. We are quite careful about sensitive items in awarding the general system of preferences.

Mrs. JOHNSON. Thank you.

Mr. Chairman, may I have unanimous consent to submit my full statement at the opening of the committee hearing?

Mr. GIBBONS. Yes.

[Mrs. Johnson's prepared opening statement appears earlier in the hearing.]

Mr. GIBBONS. Mr. Guarini.

Mr. GUARINI. Thank you, Mr. Chairman.

Madam Ambassador, you have proven that you are the right person for the right job. It takes a lot of patience, determination, toughness, energy, and, most of all, a vision for the future, and this I share with you. I am fully in agreement with you that there should be a fast track. We would fail in a very important political opportunity.

Ambassador HILLS. I am delighted to hear that.

Mr. GUARINI. I think we would be marching backward in progress in our global economy and our own standard of living, for not only the world, but our own country, more particularly, if we fail in this endeavor.

I am concerned about all of the things we talked about, about labor standards and the environment and health standards and many things that we are negotiating, and I do hope we will, with that toughness, be able to come up with what will be a best and satisfactory answer for our country.

There are a lot of things that you have been told by this committee concerning drugs, which Charlie Rangel has been very interested in and I have also, and about the other problems of immigration. These are side issues that can be addressed, but also what

very few people have spoken about is the stabilization of Central America.

If we have a strong economy in Mexico, the problems that have plagued us for the 1970's and 1980's, for the last 10 or 20 years, concerning all those little countries that have a tremendous amount of unrest, cost our taxpayers a tremendous amount of money, because we put billions of dollars in the five or six countries in Central America, it has taken a lot of our headlines, because of the instability there.

If you have a strong economic Mexico, you are going to resolve a lot of those problems, just by Mexico being along side of them, and it will be their problem even more. It will be a buffer for us, so I see stabilization of all of Central America as one of the key issues that we are going to have to address ourselves.

So, there is a lot of win-win I think that is located in the successful free trade negotiations, but I imagine Canada and Mexico have concerns. They do not have problems with fast track, as we do, because of their form of government, I assume, but they do have other concerns. Are their concerns mostly like ours in Canada? Can you share with us what the concerns are in Mexico against a North American treaty?

Ambassador HILLS. They do have political discussions about a free-trade agreement, both for and against, as a democracy would. Those elements of their economy that fear our competition are less enthusiastic than those who are looking for market opportunity.

But I think it is fair to say that the Salinas administration has a very good record of what occurs when a government follows market opening initiatives. As a result of adopting market oriented policy there has been a reduction of capital flight, there has been a 14-percent increase in Mexican wages just since the Salinas administration took over, and the opportunities for growth and prosperity have expanded.

Mr. GUARINI. Well, let me ask you one last question. We are concerned about job opportunities being lost, and labor is very much in the forefront on this, and I do not think there is a Member of Congress who would not be concerned about jobs that would be lost. You have 154 people on your staff. They address the 170 nations and what is going on in the whole world, and they are into GATT and they are into other bilateral and multilateral agreements, et cetera. So, you are really very thin on your staff.

Do you get support, when you talk about training and skills and TAA and environment and all of the things that affect the other Cabinet members? Do you get input from the Cabinet member themselves, or is it just staff and functionaries that you deal with, when they sit at these negotiation tables with you?

Ambassador HILLS. I get magnificent support from my Cabinet colleagues and from the President himself. We are combined in our view that our trade initiatives are vital for this country. We know that trade will create jobs and economic prosperity. We want to follow the fast-track procedures, which talks in terms of giving notice, consulting, presenting, and then sharing the final result. If it is a good agreement, it should be voted for.

Mr. GUARINI. So, the concerns that we have concerning a free-trade agreement are addressed by the Cabinet members them-

selves, the President and yourself, so that we can be sure and have confidence in the fact that they will be properly addressed at every level?

Ambassador HILLS. Absolutely, and we do have inter-agency teams. I have met with many groups, to try to deal with these issues. We are sensitive to the issues that have been referred to here this morning.

Mr. GUARINI. Thank you. Good luck.

Ambassador HILLS. Thank you.

Mr. GIBBONS. Thank you, Mr. Guarini.

Mrs. Kennelly.

Mrs. KENNELLY. Thank you, Madam Ambassador, for your patience, and I will be brief.

I just want to refer to the generalized system of preferences. It is my understanding that, over the last year, over half of the requests for reduction on imports have come from Mexico, and I just wonder if this is good policy at this time, if we should continue to have these unilateral agreements at this time, or should we not wait until we are into fast track?

Ambassador HILLS. I think we have to look at the item involved. As I say, Mexico has brought down its textile tariffs. We now enjoy a surplus in textiles. They did that unilaterally. We would not want to penalize a country that was, with some regularity, bringing down its import restrictions, and, as a result of which, our exports have doubled. We do not think that is the way that we should run that trade relationship.

We are happy to consult with you on individual items. We take public comment on GSP, and we receive literally hundreds of letters from Congress on every item of GSP, and I am delighted to talk to you about them.

As you know, there is a competitive level, so that where the sales are over, I think it is $93 million, then they are not entitled to GSP. We are talking about a certain level of exports, and we are quite sensitive to the interests of Congress.

Mrs. KENNELLY. Thank you, Madam Ambassador. I am one of those hundreds who wrote you, and thank you for saying you will talk to me, and I will be calling you. Thank you.

Mr. GIBBONS. Mr. Anthony.

Mr. ANTHONY. Thank you, Mr. Chairman.

Ambassador Hills, I just recently dictated and have in process a letter going to President Bush and also a letter to you, stating that I have finally resolved the conflicts in my own mind to vote in favor of the continuation of GATT negotiations, and also to discuss with Mexico a free-trade agreement.

Ambassador HILLS. I appreciate that.

Mr. ANTHONY. It is not to say that I am not like a lot of other members of the committee, that I do have some concerns. I think those concerns can be reached through the negotiation process, and I will be in touch with you and your people, specifically, as we find out whether or not the authority is granted or denied.

I had a very fascinating meeting yesterday with the Prime Minister of France, and he was asked directly about their common agricultural policy. Inasmuch as France is the dominant agricultural entity in the European area, and also the Prime Minister happened

to be a former agricultural minister, he knew our programs very well and could play the devil's advocate and go back to us, in terms of what we have done.

He said a couple of things that really worried me, in terms of whether or not you are going to be successful. First of all, their national policy is to keep the peasants on the farm, because of population problems, and also he mentioned—this is not the exact phraseology, he had a much cleverer way of stating it, but he said "safety of reelection."

With the farmers being so dominant politically over there, it does disturb me, if you are given the authority to go back to continue to negotiate, that the safety of reelection may deny them the opportunity to go as far as they should and as we would like. He basically was asking us to understand the dilemmas that they are under and only do what is possible.

At the same time, he did show a crack in the door and a willingness to negotiate. He showed a willingness, as a leader, to do maybe some unpopular political things. I would just encourage you to take advantage of what I perceive to be a glimmer of light there, negotiate hard and make them do more than they think is possible, and maybe we can be successful there.

In terms of the free-trade agreement with Mexico, I have gone back and talked to my farmers and they think it will be positive for them. I have talked to the manufacturing sector and they think it will be positive for them. I have met with the labor community and they are opposed to it, for many of the same reasons that have been discussed today, so I would just ask you to keep those issues in mind, as we determine what is going to happen.

As a final request, we have lost in the pork issue the last couple of battles, but I think it is clear that there is a subsidy in Canada to the pork producer, and I would encourage you to continue to work with the pork producers in America to try to find some resolve to that particular issue.

I do not know if you have a comment that you would like to make about that particular issue or anything else, but, on balance, I think we need to move forward.

Ambassador HILLS. Thank you very much.

Mr. GIBBONS. Madam Ambassador, that completes the testimony for today. Thank you very much.

Ambassador HILLS. Thank you, Mr. Chairman.

Mr. GIBBONS. The meeting is adjourned. This concludes the meeting on the President's fast-track extension request for today. Testimony will be received from the private sector later.

[Whereupon, at 12:55 p.m., the committee adjourned, subject to the call of the Chair.]

PRESIDENT'S REQUEST FOR EXTENSION OF FAST TRACK TRADE AGREEMENT IMPLEMENTING AUTHORITY

THURSDAY, APRIL 11, 1991

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The committee met, pursuant to notice, at 10 a.m., in room 1100, Longworth House Office Building, Hon. Dan Rostenkowski (chairman of the committee) presiding.

Chairman ROSTENKOWSKI. The committee will come to order.

Good morning, ladies and gentlemen. This is the second day of hearings on the President's March 1 request for an extension of fast-track authority. At an earlier hearing, we received testimony from Ambassador Carla Hills on behalf of the administration.

Today, we will be hearing testimony from the majority leader, the Honorable Richard Gephardt, as well as from distinguished labor and business leaders.

It is clear that the question of whether fast-track authority should be extended is highly controversial. Several members of this committee who have traditionally supported initiatives have expressed strong sentiment and reservations about the wisdom of extending fast track, particularly as it relates to the proposed free-trade agreement with Mexico.

I share many of the concerns that have been expressed, and want to make clear that I have not yet made up my own mind on this issue. It is of critical importance to me and to many others that environmental and labor issues be effectively addressed in the negotiations with Mexico.

I, along with Senator Bentsen, wrote the President last month and asked him to provide an action plan for addressing such issues. We expect to receive the President's response by May 1. I cannot emphasize enough the critical importance of the President's response to our letter.

If the President sets forth a serious action plan with serious commitments to address these important issues, many in Congress will be inclined to support fast-track extension. On the other hand, if the President's response does not set forth a serious action plan of serious commitments, I and many other Members of Congress are not likely to support the fast-track extension.

I have been and continue to be a strong supporter of the Uruguay round. I believe that a successful round is achievable under

the leadership of Ambassador Hills and that this is clearly in the best economic interests of the United States.

Although there is much more skepticism about the proposed North American free-trade negotiations, the burden is clearly on the administration to demonstrate that such an agreement is in the best economic interests of the United States without having an adverse effect on American jobs and wages.

Ultimately, if fast-track authority is extended, it will be the Congress that will decide whether or not any agreements negotiated by the administration will be implemented. I, for one, am prepared to say no to any agreement that does not serve U.S. interests.

Congress will not simply rubberstamp any agreement that the administration submits. The Congress will be a full partner in the negotiation and implementation of any agreement negotiated pursuant to fast-track authority.

In the event fast track is, in fact, extended, the Committee on Ways and Means will closely monitor all aspects of the negotiations and will expect full and substantive consultations from the administration throughout the negotiations process.

Before calling on our distinguished majority leader, Mr. Gephardt, do any Members have opening statements to make?

Mr. Levin.

Mr. LEVIN. Thank you, Mr. Chairman.

I was in Mexico last week with several of my colleagues, including from this committee on both sides of the aisle. I returned convinced more than ever that Mexico and the United States have reached a historic juncture.

Mexicans have begun to undertake the painful process of opening their economy and competing in global markets. They are trying to raise their standard of living and improve their quality of life.

Americans, we here in the United States, are in the painful process of trying to regain the economic ground we lost in the 1980's, when low- and middle-income Americans saw erosion in their standard of living and critical industrial sectors suffered severe setbacks.

Together, our countries are preparing to explore uncharted waters by preparing to negotiate a North American Free-Trade Agreement. I say uncharted because two such disparate sets of economies have never attempted such major and rapid integration before.

As we saw firsthand last week and discussed in Mexico, there is both potential and peril in such an idea. The United States and Mexico are truly friends and we must work together, but we also must act in our own best economic interests.

The President of Mexico, Mr. Salinas, made it clear as he asked us some hard questions that he is acting very clearly in the best interest, as he sees it, of the Mexican people. I respect him for his firmness, but the United States must be just as firm.

We must ask how a free trade agreement would affect the standard of living and quality of life in the United States of America. We must ask some hard questions about how to best stimulate economic growth, once again in the United States.

These concerns were well-stated in two letters sent to the administration, one by the distinguished chairman of this committee and the chairman of the Senate Finance Committee, and the other by our distinguished majority leader, who is here with us today.

These letters make it clear that the major issues in negotiating any NAFTA are matters of policy, not procedure. The procedures are important, but must be the servant, not the master, of policy.

Each set of negotiations is different. In the case of any free-trade negotiations with Mexico, the talks involve principally one nation, unlike the GATT where scores are involved. Moreover, the object is not only a greater flow of trade, but a major meshing of economies. Unlike the United States and Canada, these two sets of economies are at very different levels of development.

As a result, I believe that any so-called fast-track procedures for a North American Free-Trade Agreement would have to be shaped to the particular circumstances in this instance to make sure the following takes place.

No. 1, congressional concerns and objectives are clearly laid out in advance, as are those of the administration. No. 2, some kind of a midcourse review would be provided between the administration and Congress. And No. 3, the Congress would reserve the right, in advance, to look separately at the most major parts of any agreement to see if the administration had responded adequately to those stated concerns and objectives.

This is feasible, indeed necessary. Congress should not be able to nitpick an agreement, if any. We also should not be in a position simply to take it or leave it. On this critical issue, Congress must be, as the chairman has said, a major partner, and I hope that ways can be found for both branches to proceed throughout the duration of this issue more in a spirit of collegiality than confrontation.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Chandler.

Mr. CHANDLER. Thank you, Mr. Chairman. I would like to compliment you for your statement and associate myself with those remarks.

Also, I would say to my colleagues on the committee that, as I went home for the Easter recess, I became very concerned at what I was hearing from people in the State of Washington.

They were saying things like we are very concerned about the exploitation of poor people in Mexico by an unfair trade agreement, which is being jammed down the throats of both countries. They were talking about poisoned produce being imported from Mexico into the United States. They were talking about American jobs being wiped out by cheap imports from Mexico, as if there were already in place a free-trade agreement for North America.

I believe the people of this country are being deliberately misled into believing that somehow an agreement exists, and the Congress of the United States is about to ratify it, which is not the case.

What the Congress of the United States needs to do is give this administration the authority to negotiate a free-trade agreement for North America and to continue the negotiations in the General Agreement on Tariffs and Trade.

I think it is a great disservice being done by those who are attempting to defeat fast track, by saying all these horrible things are going to happen. I think it is a great disservice that they are doing. There is no agreement. What we need is the authority to negotiate.

It was my experience during the negotiations over the free-trade agreement with Canada that our administration was most responsive to the concerns of a number of—and I should say numerous—industries in the United States, and accommodations were made for those industries on both sides of the border. There is no reason to believe that would not be the case with the free-trade agreement negotiated under fast-track authority now.

I hope that this committee will allow the Congress and the Senate to vote on a free-trade agreement that will allow the United States to continue its leadership in world trade.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Sundquist.

Mr. SUNDQUIST. Mr. Chairman, I would like to submit a statement for the record.

Chairman ROSTENKOWSKI. Without objection, it is so ordered.

[The opening statement of Mr. Sundquist follows:]

OPENING STATEMENT OF HON. DON SUNDQUIST

Mr. Chairman, on March 1, President Bush submitted to Congress his request for a two-year extension of the so-called fast-track procedures with respect to trade agreements.

I believe the term "fast track" is a misnomer; the GATT negotiations have proven that the USTR is not willing to rush into any bad agreements. Fast-track procedures simply guarantee an up-or-down vote by Congress, without amendments, within a fixed period of time. It does not mean that Congress does not extensively review and make recommendations. Furthermore, Congress can disapprove a negotiated agreement that does not meet its expectations.

Fast track does not commit us to accept the unacceptable; it simply ensures that the United States has the tools at its disposal that will enable it to negotiate the best agreements possible. It has been used since 1974 and is largely responsible for our exports expanding almost 75 percent since 1976.

I believe that it is Congress' job to continue to expand access to foreign markets. This can only be done if the USTR has the free hand and authority to negotiate beneficial agreements.

Without fast track, our nation's economy will be off the track of economic growth.

I thank the chairman.

Chairman ROSTENKOWSKI. Mr. McGrath.

Mr. MCGRATH. Mr. Chairman, I would like to submit a statement for the record.

Chairman ROSTENKOWSKI. Without objection, it is so ordered.

[The opening statement of Mr. McGrath follows:]

OPENING STATEMENT OF HON. RAYMOND J. MCGRATH

Mr. Chairman, I appreciate your leadership in efforts to continue the debate on the proposed extension of fast-track authority.

Fast-track authority is essential to the reasonable conduct of international trade negotiations. Without it, U.S. credibility in pursuing market opening efforts and trade reform would be seriously undermined. An extension of the fast-track procedure does not ratify any specific agreement, nor does it preclude meaningful congressional participation in the negotiating process. Notification of and consultation with Congress will continue, both during the negotiations and during the enactment of any implementing process. Fast track merely streamlines this implementation process. The final agreement must be judged, up or down, on its own merits.

By extending fast track, Congress will enable the United States to expedite its efforts to open world markets and reduce unfair competition. Successful conclusion of trade agreements offers one of the best prospects for future growth of the U.S. economy, industry, exports, standard of living, and jobs.

I hope our efforts here today will lead to a greater understanding of the dynamics of this endeavor and I want to thank our distinguished panel of experts for their participation.

Chairman ROSTENKOWSKI. Mr. Downey.

Mr. DOWNEY. Mr. Chairman, I just want to associate myself with your remarks. Personally, I think that GATT authority should be given the President, that we should go back to the table. That makes sense for us to do.

With respect to Mexico, I just simply can't live with the idea of a fast track. It is the Mexicans who want this agreement, Mr. Chairman, and I think in the long run it will help both parties.

But I think we can do a great deal for the workers in this country and for the Mexicans if we have separate protocols on questions of labor, separate protocols on questions of the environment that would come back to this Congress for our closer scrutiny.

We could do a lot for the Vincente Guerreros of the world. It was reported in Monday's Wall Street Journal about the level of exploitation that Mexican workers now have to live under.

Our rejection of a fast-track agreement won't help him, but in the negotiating of a fast-track agreement, we are in a position to make the Mexicans face up to the reality of stricter labor standards and stricter environmental regulation, and we have the power to do that if we choose. So we have a golden opportunity to help both countries if we proceed a bit more slowly and a bit more carefully.

The other thing I would say, Mr. Chairman, is this administration has shown an appalling disregard for the potential plight of low-income American workers who might be dislocated as a result of a Mexico free-trade agreement. They have assumed any notion that trade adjustment assistance or other labor mechanisms would be used to help American workers.

Clearly, the ITC report on this subject leaves broad room to believe that there are potentially thousands of American workers in the short term who will be adversely affected by this agreement. I would just suggest to you that before I would want to see an agreement with Mexico fully in place, I would want to make sure that American workers who are going to be disadvantaged are going to be cared for in some reasonable and responsible manner.

Chairman ROSTENKOWSKI. Mr. Andrews.

Mr. ANDREWS. Mr. Chairman, I would like to submit my statement for the record.

Chairman ROSTENKOWSKI. Without objection, it is so ordered.

[The statement of Mr. Andrews follows:]

Statement for the Record
Michael A. Andrews of Texas

Mr. Chairman: Thank you for convening the Committee on Ways and Means to continue discussion of this issue which is so important to our hemisphere. You and the Chairman of the Senate Finance Committee, as well as Majority Leader of the House have raised some very important concerns about the North American Free Trade Agreement in letters to the President. I share your concerns about the future of the American worker and our environment and I am hopeful that the Administration will respond with some specific answers, particularly on those important environmental questions which have such direct consequences for my home state of Texas. Mr. Chairman and members of the committee, the Rio Grande is one of the most polluted rivers in this hemisphere. If you could see that river and the living conditions of the people in the Valley, it would make you angry.

But I have a question to ask of those who argue that the fast track procedure should be killed because of concerns about toxic waste contaminating the water supply along the border, or Mexican families living in shacks made of cardboard. I want to know how killing fast track is going to help solve those problems. It seems to me that killing fast track will also kill our opportunity to help President Salinas try to tackle those problems.

The administration must place more emphasis on environmental issues in the North American Free Trade Agreement negotiations. Mexican businesses may gain economic advantages because of the wide disparity between our nation's enforcement of health and safety laws and those enforced by the Mexican government. Environmental conditions along our border are unacceptable and they must improve. It would be foolish not to insist on higher environmental standards and more aggressive enforcement of those standards by the Mexican government. The environment has no boundaries. The result of environmental abuse along our border is appalling and disgraceful.

The Administration must do much more to seize this opportunity to improve environmental conditions in Mexico. If we kill fast track, however, it will be a slap in the face to Mexico. Solving serious environmental problems will take a cooperative effort at the national level. Killing fast track will say to Mexico, you are third world, we don't want to deal with your problems. The U.S. will then walk away from Mexico, but the serious problems which are being examined as a result of this fast track debate will remain.

Those problems will probably get worse because companies will continue to build plants on the Mexican side of the border, but we will have given up our best opportunity to influence Mexican policies and bring about solutions. In addition, we will have blocked the economic benefits which would help Mexico attain the resources needed to tackle these problems.

Silencing the debate...killing the negotiations... will not help solve Mexico's problems. Those problems will continue to spill over the border into Texas, California, Arizona and New Mexico. Killing the negotiations will not stop the exodus of low skill, low wage jobs from the U.S. Killing the negotiations will limit Mexico's and our own opportunity for increased trade, and it will take away a major vehicle through which we can help to bring about positive changes along the border.

Thank you Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Pease.

Mr. PEASE. Mr. Chairman, we have some distinguished witnesses this morning, and I don't want to prolong this part of our meeting. I would just like to associate myself with the remarks just given by Mr. Downey, but with one caveat.

That is, it is not just low-income workers who are being ignored by this administration. My great concern about a United States-Mexico Free-Trade Agreement is what has happened in the last 10 years to middle-class American manufacturing workers and what may well happen in the future at an increasing pace if United States-Mexico Free-Trade Agreement is concluded.

It seems to me that the callous disregard of the last administration and of this administration for any adjustment mechanism whatsoever for manufacturing workers in the United States who lose their jobs endangers the President's hopes for a free-trade agreement more than anything else that I know of.

Mr. DOWNEY. Would the gentleman yield?

Mr. PEASE. Yes, I would be happy to.

Mr. DOWNEY. I agree. The gentleman has appropriately corrected me. It is middle-class workers and not just low-income workers. Thank you.

Chairman ROSTENKOWSKI. If there are no further opening statements, Mr. Gephardt, would you please assume your position at the witness table.

Mr. Majority Leader, I want to personally commend you for all the responsible and constructive leadership that you have demonstrated on this very important issue. We are always happy to have you testify before the Committee on Ways and Means. In some respects, it is welcome home, Dick. If you are ready, you may proceed.

STATEMENT OF HON. RICHARD A. GEPHARDT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI, MAJORITY LEADER, U.S. HOUSE OF REPRESENTATIVES

Mr. GEPHARDT. Thank you, Mr. Chairman.

It is always good to come back home, to the Ways and Means Committee, where I enjoyed so much serving for so many years.

I realize that 4 days from now, the American people will be gathering around their kitchen tables to fill out their 1040's, and I guess it is on those days that I am happy I am not still a member of the Ways and Means Committee, but I have many fond memories and have the greatest of respect for all of you and certainly you, Mr. Chairman, and the great work that is done in this committee that is so important to so many individual Americans, whether it is Social Security or trade or taxes or unemployment compensation or any number of other matters that you deal with.

I want to commend you especially for having these hearings on the President's request for an extension of what we call fast-track authority. While this is a fairly technical area of parliamentary procedure, I think fast track has become the focus for those who have a keen interest in international trade and the future economic position of our country.

I think, unfortunately, the debate about fast track has deteriorated in the last few weeks, back to where our debate was about 5 years ago. According to many in the administration and elsewhere, being for fast track makes you a free-trader, and being against it makes you a protectionist.

They view supporting fast track synonymously with support for a new GATT and North American free-trade agreements. Of course, the reality you all know and most people know is more complicated than that. You can support these agreements without supporting the fast-track process.

By June 1, we will be setting our trade, economic, and foreign policies on a course that will shape the American future for generations to come. This is an important issue. We should be debating the substantive issues raised by these negotiations, not focusing all of our attention on the process.

I believe the Congress must set rigorous standards for the administration to meet if the President wants us to vote him fast-track authority.

To earn this vote, the President must be committed to a GATT agreement that preserves the enforcement of a fair trading system. He must provide us with a credible economic analysis of the North American Free-Trade Agreement, and I think he must address in a convincing way issues like rules of origin, worker transition, wage disparities, the environment, worker rights, labor mobility, and human rights.

In other words, before we make momentous, substantive, not simply procedural, judgments that will have a profound effect on America's economic health and life, we had better know exactly what we are doing.

Let us step back a minute and understand what fast track is really all about. Prior to the Kennedy round, trade talks were almost entirely based on tariff reductions, because those were the most important barriers that we dealt with. Congress had given the President broad authority to reduce U.S. tariffs on our tariff schedules. As a result, domestic implementing legislation was unnecessary.

During the Kennedy round, the GATT negotiators proposed an antidumping code, and although the President thought he had the authority to agree to this provision, Congress didn't share his view. As a result, Congress refused to pass the antidumping implementing language. The President implemented what he could through an Executive order.

It was because of this experience that the President requested and Congress then approved what we now call the fast-track procedure. These procedures have remained relatively unchanged since the 1974 Trade Act.

Fast track is a presumption as to what the rules of the House and the Senate will be. It says two things. First, Congress will vote on an agreement within a specific period of time. Second, Congress will not amend the legislation. Fast track was intended to strengthen the President's negotiating hand and give him credibility at the negotiating table. He needed to provide assurances to scores of nations and negotiators that he could pass intact an agreement that he had signed.

But the Trade Act of 1974 also specifically stated that Congress was enacting the fast track, and I quote, "with full recognition of the constitutional right of either House to change the rules at any time, in the same manner, and to the same extent as in the case of any other rule of that House."

The bottom line is that the President not only has to earn fast track at the front end, he has to keep on earning it at the back end. If Congress grants fast track, that is not the end of the process, it is just the beginning.

I intend, as I know this committee and other members intend, to continue to urge the administration to negotiate agreements that represent what is best for our Nation.

It is now obvious that the issue of granting fast track has raised a number of concerns by our constituents. These legitimate fears are causing everyone to look more closely at both the procedure and the substance.

The experience of the last 10 years has created a great many skeptics about the administration's trade policy. As the deficits have mounted, as markets have been lost, as millions of people have been thrown out of work, the White House has continued, in my view, to adhere to a trade policy based on outdated assumptions and dogma.

Consequently, when President Bush sent his request for fast track to the Congress, it was greeted with a great deal of skepticism. The skepticism was compounded by the fact that no official economic analysis was done of the proposed North American Free-Trade Agreement. We cannot pass this agreement without understanding its macroeconomic consequences.

Last week, I sent a letter to the President outlining what I believe are some of the important issues that need to be addressed as part of the GATT round and the United States-Mexico-Canada Free-Trade Agreement.

Mr. Chairman, I would like to ask that the letter be included in your record at this point.

Chairman ROSTENKOWSKI. Without objection.

[The letter follows:]

RICHARD A. GEPHARDT
MISSOURI
MAJORITY LEADER

Congress of the United States
House of Representatives
Office of the Majority Leader
Washington, DC 20515-6502

March 27, 1991

President George Bush
The White House
Washington, D.C.

Dear Mr. President:

I am writing to respond to your letter seeking my support for renewal of authority to speed Congressional approval of future trade agreements, the so-called fast track procedures. Congressman Rostenkowski and Senator Bentsen have already provided you with the benefit of their expertise on this issue. But, as Majority Leader in the House, I am designated under the law to introduce the implementing legislation for the GATT Uruguay Round and a possible U.S.-Mexico agreement. Consequently, I thought it might be useful to share with you some of my own views on this important issue.

I am prepared to lend my full support to a North American Free Trade Zone if the agreement fights for American jobs and exports, preserves the world's environment, and defends the rights of Mexican workers. As one who cares deeply about the effect of trade policies on working Americans, my concern is that our trade negotiators keep uppermost in their minds the impact of this Agreement on American jobs, American companies and American exports.

Therefore, my support for the Administration's proposed North American Free Trade Area is contingent upon the inclusion of assurances that American jobs will not be lost in droves.

Like you, I want the Mexican economy to flourish and grow. Relying on low wages and unsafe working conditions as comparative advantages to lure away high-paying American jobs will not save the Mexican economy -- but it will further weaken the American economy. In order for Mexico to prosper, America must prosper. So for a free trade agreement to be a meaningful benefit to both nations, it must contain provisions that will stem any hemorrhage of American jobs across the border.

For that reason I request that you not limit the talks to what used to be traditionally known as "trade issues" -- tariffs, trade-related investment restrictions, dispute resolution and the like -- but rather that we address North American Free Trade systematically.

To do so will require discussing issues like transition measures, wage disparity, environmental protection and worker rights. Neither Mexico nor Canada nor America is benefitted by a system that benignly looks on massive air pollution, poisonous pesticides and child labor as "comparative advantages." And I cannot imagine that Congress would approve an agreement that did.

The grant of authority to proceed with negotiations under the fast track procedure is an extremely important one for Congress to make. I understand the increased complexity and difficulty of negotiating an agreement with a trading partner or a number of trading partners without the ability to proceed under the fast track procedure. At the same time, I am unwilling to support an extension of fast track without assurances that Congress and the Administration are true partners in these negotiations rather than adversaries.

Thus, I am writing to outline what I believe we should be seeking to achieve both in the current GATT Uruguay Round as well as the possibly upcoming U.S.-Mexico-Canada North American Free Trade Agreement (NAFTA) negotiations. Negotiated properly, these agreements will enhance economic opportunity and growth in this country and around the world. But negotiated poorly, they could cause U.S. workers and exporters to suffer grievously in economic terms.

I am hopeful that you will respond specifically to the issues outlined in my letter so that we can work together towards a GATT and North American Free Trade Agreement.

GATT Urugua· Round

I believe, as you do, that the GATT Uruguay Round could provide the U.S. and the world with a vastly improved international trading system. The possibility of achieving more uniform rules of trade in each of the negotiating areas could provide enormous benefits to U.S. workers, farmers and businesses.

The 1988 Omnibus Trade Act outlined 16 negotiating objectives for the Uruguay Round [19 U.S.C. 2901] and requires the Administration to report on your progress in achieving them. Despite the assurances in reports that your Administration has forwarded to Congress, I cannot now determine what progress has been made on many of these objectives.

And, based on press reports, discussions with Administration officials and representatives of our trading partners, I cannot now define what specific actions your Administration is contemplating in the GATT Uruguay Round to fulfill the Congressional objectives

Indeed, in several areas, progress within the GATT Uruguay Round has been less than anticipated by Congress when it stated its objectives in the 1988 Act. For example, little or no progress has been made as part of the GATT Uruguay Round in expanding worker rights or in gaining access to markets for our high-technology products.

We must judge a GATT Agreement as a whole. At the same time, we must be unwilling to settle for an Agreement that does not enhance the international competitiveness of our economy, ranging from agriculture to services to manufacturing. We must reject any efforts to diminish the effectiveness of those U.S. trade laws that are already on the books.

Upon its completion, we must look at how an Agreement is to be implemented and enforced based on the possibility of new dispute resolution provisions. In the past, there has been a dramatic difference between the way that Congress and the Administration view our trade laws: The Administration views the U.S. as a defendant while the Congress views the U.S. as a plaintiff.

As a result of these different views, we should be wary of a strong dispute resolution mechanism if the underlying agreements in each of the 14 negotiating areas aren't completely acceptable. If a strong dispute resolution mechanism is combined with weak agreements, a lower standard is locked-in which, in essence, thereby diminishes our ability to protect the rights of American workers, farmers and businesses.

Finally, I must emphasize that the U.S. should not trade away any provision of our trade law such as dumping/countervail, Section 301 or the other vital tools that Congress has provided to work for a more level playing field.

North American Free Trade Agreement

I believe a negotiation with Mexico and Canada that will result in a North American Free Trade Agreement could be in our country's best interests. At the same time, I am deeply concerned about what the possible effects of an agreement could be.

The economic studies that have been published on a possible agreement not only are tentative in their conclusions but are based on assumptions that may have no connection with reality. It is disturbing that the Administration has yet to produce an economic impact analysis and, it appears from a number of discussions, has no intention of producing an impact analysis.

An official analysis by the Administration is really the only way we can truly judge what the effects of an agreement might be. Unless a study is based on the assumptions of those who are in fact negotiating the Agreement, the study will not assist us in our debates.

One of the most comprehensive studies done to date was published recently by the International Trade Commission. In its study, the ITC indicated:

> "(T)he Commission analysis suggests that an FTA with Mexico will benefit the U.S. economy overall by expanding trade opportunities, lowering prices, increasing competition, and improving the ability of U.S. firms to exploit economies of scale. Since these gains are likely to outweigh the costs, the U.S. economy will probably gain on net."

This is not exactly a ringing endorsement of the idea of proceeding with an agreement. I truly want to assist Mexico and the Mexican people in terms of expanding economic growth and opportunity. But I refuse to accept the notion that the American worker should shoulder the burden of reaching an agreement. For this reason, I respectfully request that you direct the appropriate officials to provide me with the economic analysis on which you based your decision to proceed with the negotiations of a NAFTA. Congress and the American people have a right to know what is at stake before entering into negotiations under the limitations of the fast track.

I understand that your present intention is to proceed with a negotiation with as limited an agenda as possible. But, we must not exclude those issues which will help determine the competitive nature of our future relations or that will help to improve the quality of life in our countries.

Those issues that appear to be on the agenda are tariffs, intellectual property, trade-related investment restrictions and dispute resolution. While we must have the best possible provisions in a final agreement in each of these areas, this list is simply not sufficiently comprehensive to address the issues that are most important to our bilateral economic future.

Let me also share with you my thoughts on which issues should be addressed as part of a negotiation:

Escape Clause:

The prospect for potential job loss exists in a number of important industrial sectors. Because there has been no officially released Administration study of the impact of a proposed NAFTA, it is difficult to project what impact on jobs and our industrial base there will be.

Accordingly, it is important that a comprehensive escape clause provision be included as part of the negotiating framework that can act as a stop-gap measure to stem the loss of jobs and business opportunities if there is a hemorrhaging in any one sector. This provision should have an effective trigger that will allow us to ameliorate any negative impact on a sector and reassess what course of action to take.

I cannot stress strongly enough how important this issue is. We must be prepared to continuously examine and reexamine the progress of a NAFTA to ensure that the interests of American farmers and workers are protected.

Rules of Origin:

I assume that the discussion of rules of origin would be included as part of the NAFTA negotiations. I want to comment specifically, however, on how important I believe a strict standard for any rule of origin proposal is to a successful agreement.

Our nation faces an historic trade deficit. Industry after industry has faced the onslaught of fierce foreign competition that has forced many firms to close or request government help in opening markets and fighting unfair competition at home.

As we enter into negotiations on a NAFTA we must not allow Mexico to become an export platform for the products of third countries to flood our markets. Development of business opportunities by third countries that is designed to aid the Mexican economy rather than fill the coffers of the foreign parent company should be our goal.

Accordingly, I believe that we must have a very strict rule of origin standard regarding production in Mexico.

Transition:

Every study that has been done on the effects of a NAFTA recognizes that there will be dislocations in our labor market resulting from an agreement. I do not believe that the American worker should have to shoulder the cost of providing economic growth and opportunity to Mexico and its people.

Even in the absence of economic analysis, it is implausible that transition relief will not be needed by workers in industries harmed by the NAFTA. Accordingly, I believe that you must make a commitment to providing help to those who might be disadvantaged as a result of an agreement. This includes not only a commitment to expanded unemployment insurance for these individuals, but also appropriate training and retraining programs.

Additionally, transition relief measures should be examined that will allow companies adversely affected by a NAFTA to receive government help in finding new markets for their products and converting to new lines of business.

This must be a commitment not only to providing the governmental support mechanisms that are necessary, but also to funding these programs as well. American workers and American firms deserve no less.

Additionally, we must recognize that the US-Canada FTA will be phased in over a ten-year period. It is possible that we may need to allow for as long, if not longer, a phase in period in the case of Mexico. We may also want to examine the possibility of phasing in the provisions of a final agreement based on increasing standards of living in Mexico. This will provide the Mexican government with the incentives to continue with their liberalization programs as well as providing U.S. workers with a greater protection against a competitive policy based on wage differentials alone. At the same time, if we see substantial benefits, as in the US-Canada FTA, we may wish to accelerate the phase in process.

Wage Disparity:

One of the principal issues that is raised by the NAFTA is the question of how we address the substantial wage and standard of living disparity that exists between our two countries. Our goal must be to raise the wages and standard of living of Mexicans, not lower our own.

I am interested as to what steps might be taken to address this issue -- perhaps the most important issue involved in these negotiations.

Environment:

Without a provision on environmental controls, this agreement is likely to increase pollutants in and from Mexico and drain jobs from the U.S. needlessly.

Last year, with your help, Congress passed an historic Clean Air Act. In this legislation we committed ourselves to increasing environmental quality in this country while striking a balance between environmental quality and economic growth. Similar legislative action has occurred in the areas of water quality and pesticide residues, and in many other important areas.

In discussions with members of your Administration as well as Mexican authorities, I have noted a reluctance on the part of these officials to address important environmental concerns as part of the scope of these negotiations. I believe that these concerns must be part of the negotiating agenda. The more than 1700 businesses currently operating in the maquiladora program are threatening both the environment as well as the health of countless people on both sides of the border. Additionally, studies have shown that emissions from industries in other parts of Mexico have affected areas far beyond our common border.

The Clean Air Act and other U.S. environmental laws do add to the cost of doing business. In addition to the health and quality of life impact of Mexico's more lax environmental standards and enforcement, I am concerned that many American companies may relocate their operations because of this "comparative advantage." We must not allow this to happen. It would not be in the United States' or Mexico's best interest.

Indeed, it is tough for U.S. companies to compete against firms that operate under more lax environmental enforcement schemes. This laxity can, in fact, operate as a subsidy.

A number of Members of Congress have requested that an environmental assessment of a NAFTA be conducted. I would also ask that environmental issues be included on the negotiating agenda.

As part of this, I would hope that the question of pesticide use by Mexican farmers be given appropriate attention. While our farmers can compete against the best any country has to offer, they can not and should not have to compete against farmers who use pesticides that fail to meet U.S. standards. While we certainly can reduce the risks to our citizens through inspection of all agricultural products crossing our border, a better approach would be to agree to eliminate the use of these pesticides and harmful chemicals, thereby protecting the health and safety of our consumers and allowing for a freer flow of goods. This will help protect the health of the Mexican people as well.

Worker Rights:

A final agreement must include provisions that protect the fundamental rights of workers. Parties to the NAFTA must recognize that all countries have a common interest in respecting the fundamental rights of workers, in the achievement and maintenance of fair labor standards, and in the improvement of wages and working conditions. Among the provisions that a NAFTA should include are:

- Respect for freedom of association.
- Respect for the right to organize and bargain collectively, including on a regional basis across national boundaries.
- Prohibition of the use of any form of forced or compulsory labor.
- Establishment of a minimum age for the employment of children.
- Acceptable conditions with respect to wages and hours of work.

We must recognize the role that the NAFTA can play in promoting worker rights. We must refuse to accept an agreement that fails to provide real economic opportunity to the Mexican people. We must address both the substantive law and the procedural safeguards in this important area.

As part of this negotiation, we must also include the provision of proper health and safety standards for workers. We should seek to establish appropriate health and safety provisions that will prohibit accelerated development from occurring at the cost of worker's health and safety.

Labor Mobility:

I believe that the issue of labor mobility must be carefully considered. As we look to the future, we must understand the pressure that may be exerted on the wages of lower-skilled workers in this country if the issue of labor mobility is not critically addressed.

More specifically, I am very concerned about the prospect of substantial numbers of Mexican workers entering the U.S. labor market, even if only on a temporary basis. As you know, the U.S.-Canada FTA established procedures for temporary entry of Canadian citizen business persons into the United States and to facilitate temporary entry on a reciprocal basis between the U.S. and Canada.

Since the regulations were first issued in this area, there has been a considerable liberalization of the regulations to allow for new classes of entrants under the agreement. While the impact has been marginal, the possible impact under a NAFTA is much greater, if similar rules are applied to Mexico.

Indeed, as part of Mexico's submission in the GATT Uruguay Round, the government stated "The expansion of the service exports of developing countries and their increased participation in world trade in services depends on the liberalization of cross border movements of personnel covering unskilled, semi-skilled, and skilled labor, and that effective access to markets for their service exports can mainly be realized through this mode of delivery."

Human Rights:

The Salinas government has begun to move against police and government officials accused of human rights violations. We must commend the Salinas government. But, we must also use the NAFTA negotiations as a means of support for the Salinas government to make further efforts to curb human rights abuses.

Conclusion

In conclusion, I believe strongly in the goal of assisting Mexico and its people in terms of economic development and opportunity. But, we must not be willing to sacrifice the jobs and livelihood of American workers.

I believe an agreement can be reached that is in all of our best interests. We must not rush -- the stakes are too high. But, we must not be reluctant to accept the challenges.

If the areas I have outlined above are among the issues included in North American Free Trade Agreement negotiations, I believe that we should proceed. We must, however, be flexible and recognize that issues such as governmental ownership, debt relief, transportation regulation, exchange rates, subsidies and many others may arise that need to be addressed as well.

Ambassador Hills has raised the question of whether it would be acceptable for certain issues to be raised on a parallel track to the "core" negotiations. This depends on the commitment and intentions of your Administration and the Mexican Government. If the intention is simply to allow these negotiations to occur on a parallel track and allow them to die on the vine, that is unacceptable. If there is a true commitment to address these issues, then I am open to discussion as to the format under which the negotiations should occur. While certain issues might be addressed on a parallel track, Congress must be presented with a single piece of implementing legislation at the end of the process incorporating final agreements in all areas. We will also be looking for assurances as to what commitments the Mexican government will undertake. When Congress votes at the end of this process, it must see tangible results.

Roughly two-thirds of all Mexican exports are purchased in the United States. Conversely, Mexico purchases only about six percent of our exported products. We must understand the power of this fact as we enter into negotiations. We both have a great deal to gain, but we must not rush blindly towards an agreement.

Congress must be a partner in these negotiations. If we are able to agree on the scope of the negotiations, that will only start, not end the process. I look forward to working with you and members of your Administration throughout this period and beyond with the goal of reaching a final agreement.

Yours very truly,

Richard A. Gephardt

RAG:mrw

Mr. GEPHARDT. I want to be able to support fast track, but I believe our support must be justified by assurances by the administration that vital concerns of American businesses, workers, and farmers will be on the table, not in some sidetrack, but on the table in the United States-Mexico negotiation.

I am awaiting the President's specific response to the letter, and the question that others like you, Mr. Chairman, and Senator Bentsen have raised to determine how I will vote.

I don't want to hear about principles or themes that will guide the administration and guide our negotiators in these negotiations. I want to know what their vision is, what they think an acceptable agreement could look like, and I especially want to know what this agreement will mean for American workers and American industries and American farmers. The best gauge is what it means for jobs.

Let me briefly highlight the issues that need to be addressed if the President is to earn our support. The GATT Uruguay round could provide the United States and the world with a vastly improved international trading system. The possibility of achieving more uniform rules of trade in each of the negotiating areas could provide enormous benefits to U.S. workers, farmers, and businesses.

We must judge a GATT agreement as a whole. At the same time, we must be unwilling to settle for an agreement that fails to enhance the international competitiveness of our economy, ranging from agriculture to services to manufacturing. We must reject any efforts to diminish the effectiveness of those trade laws that are already on the books.

Upon its completion, we must look at how an agreement is to be both implemented and enforced, based on the possibility of new dispute resolution provisions. In the past, there has been a dramatic difference between the way that Congress and the administration view our trade laws. The administration views the United States as a defendant, while the Congress views the United States as a plaintiff.

As a result, we should be wary of strong dispute resolution mechanism if the underlying agreements in each of the 14 negotiating areas aren't completely acceptable. If a strong dispute resolution mechanism is combined with weak agreements, a lower standard of living is locked in, which thereby diminishes our ability to protect the rights of American workers.

Finally, I want to emphasize that the United States should not trade away any provision of our trade law, such as dumping/countervail, section 301, or the other vital tools that Congress has provided to work for a more level playing field.

I will not go in my testimony into all of the areas that I set out in my letter to the President. I think they are obvious. Many of them were stated in the chairman's letter to the President as well, the areas of labor mobility, human rights, worker rights.

The issue of transition, which Congressman Downey and others here have mentioned this morning is an extremely important issue. If we are to have a treaty, it has got to have a transition which recognizes the 10 to 1 wage disparity that exists between our nations.

All of us know that it took 3 years to do a United States-Canadian trade treaty. Canada, of all the countries of the world, is probably the closest to the United States in standard of living, in economic custom and practice. It took 3 years and hard negotiation. It has a 10-year transition.

I dare say that in some areas, a Mexican-United States treaty with Canada included is going to have to have transition of a much longer and more complex nature.

Finally, Mr. Chairman, the granting of fast track is not an issue that any of us can or should take lightly. Before any decisions are made, we have to examine the substantive questions that are involved.

I am awaiting a response to my letter, as I know Chairman Rostenkowski and Senator Bentsen are awaiting an answer to their letter to make a decision. The President, I think, under this procedure has to earn the support of the Congress, today and throughout the process.

What we are talking about this morning is an issue larger than United States-Mexico trade or the procedural treatment of an agreement. It concerns the wealth, it concerns the earnings, and it concerns the future of the American economy. We must raise these issues now and throughout this period and solve them to our satisfaction and the satisfaction of our trading partners, because we will have to live with the consequences for a very long, long time in the future.

Mr. Chairman, I look forward to working with you and the members of this very, very important and great committee as we work together to solve this very important problem.

[The prepared statement follows:]

NEWS FROM THE HOUSE MAJORITY LEADER

For Immediate Release
April 11, 1991

Congressman Richard Gephardt
H-148, US Capitol

Testimony before the
House Committee on Ways and Means

Introduction

Mr. Chairman, members of the Committee, it's good to be back. Four days from now, millions of Americans will be scurrying around their kitchen table putting the finishing touches on their income tax forms -- it's this time of year that always reminds me of my long service on this august committee.

I want to commend you for having these hearings on the President's request for an extension of what's known as "fast track" authority. While a fairly technical area of parliamentary procedure, fast-track has become the focus for those who have a keen interest in international trade and the future economic position of our country.

Unfortunately, the debate about fast track has deteriorated back to where our debate was five years ago. According to many in the Administration, and elsewhere, being for fast track makes you a free-trader and being against it makes you a protectionist. They view supporting fast-track synonomously with support for new GATT and North American Free Trade Agreements. Of course, the reality is more complicated than that. You can support these agreements without supporting the fast track process.

By June 1, we will be setting our trade, economic and foreign policies on a course that will shape the American future for generations to come. We should be debating the substantive issues raised by these negotiations, not focussing all of our attention on the process. I believe the Congress must set rigorous standards for the Administration to meet if the President wants us to vote him fast-track authority.

To earn this vote, the President must be committed to a GATT agreement that preserves the enforcement of a fair trading system; he must provide us with a credible economic analysis of the North American Free Trade Agreement; he must address in a convincing way issues like Rules of Origin, worker transition, wage disparities, the environment, worker rights, labor mobility and human rights. In other words, before we make momentous substantive -- not simply procedural -- judgments that will have a profound effect on America's economic health and life, we had better know exactly what we're doing.

History of Fast-track

Let's step back a minute and understand what fast track really is all about.

Prior to the Kennedy Round, trade talks were almost entirely based on tariff reductions because those were the most important barriers. Congress had given the President broad authority to reduce U.S. tariffs on our tariff schedules. As a result, domestic implementing legislation was unnecessary.

During the Kennedy Round, the GATT negotiators proposed an Antidumping Code. Although the President thought he had the authority to agree to this provision, Congress did not share this view. As a result, Congress refused to pass the Antidumping implementing language. The President implemented what he could through executive order.

It was because of this experience that the President requested, and Congress approved, the fast track procedures. These procedures have remained relatively unchanged since the 1974 Trade Act.

Fast track is a presumption as to what the rules of the House and Senate will be. It says two things: First, Congress will vote on an agreement within a specific timeframe. Second, Congress won't amend the legislation. Fast track was intended to strengthen the President's negotiating hand and give him credibility at the negotiating table. He needed to provide assurances to scores of nations and negotiators that he could pass intact an agreement they had signed.

But, the Trade Act of 1974 also specifically stated that Congress was enacting the fast track -- and I quote:

> "with full recognition of the constitutional right of either House to change the rules... at any time, in the same manner and to the same extent as in the case of any other rule of that House."

The bottom line is that the President not only has to earn fast track at the front end, he has got to keep on earning it. If Congress grants him fast track, that's not the end of the process, it's just a beginning. I intend, as I know this Committee and other Members intend, to continue to urge this Administration to negotiate agreements that represent what's best for our nation.

It is now obvious that the issue of granting fast track has raised a number of concerns by our constituents. These legitmate fears are causing everyone to look more closely at both the procedure and the substance.

The experience of the last ten years has created a great many skeptics about this Administration's trade policy. As the deficits have mounted, as markets have been lost, and as millions of people have been thrown out of work, the White House has continued to adhere to a trade policy based on outdated assumptions and dogma.

Consequently, when President Bush sent his request for fast track to Congress, it was greeted with a great deal of skepticism.

This skepticism was compounded by the fact that no official economic analysis was done of the proposed North American Free Trade Agreement. We cannot pass this agreement without understanding its macro-economic consequences.

Last week, I sent a letter to the President outlining what I believe are some of the more important issues that need to be addressed as part of the GATT Round and the US-Mexico-Canada Free Trade Agreement.

I want to be able to support fast track. But, I believe our support must be justified by assurances by the Administration that vital concerns of American businesses, workers and farmers will be on the table in the US-Mexico negotiation. I am awaiting the President's specific response to my letter and the questions that others have raised to determine how I will vote.

I don't want to hear about principles or themes that will guide the Administration in these negotiations. I want to know what their vision is -- what they think an acceptable agreement would look like. And I especially want to know what this agreement will mean for the workers and industries of this country. The best gauge is what it means for jobs.

Let me briefly highlight the issues that need to be addressed if the President is to earn my support:

GATT Uruguay Round

The GATT Uruguay Round could provide the U.S. and the world with a vastly improved international trading system. The possibility of achieving more uniform rules of trade in each of the negotiating areas could provide enormous benefits to U.S. workers, farmers and businesses.

We must judge a GATT Agreement as a whole. At the same time, we must be unwilling to settle for an Agreement that fails to enhance the international competitiveness of our economy, ranging from agriculture to services to manufacturing. We must reject any efforts to diminish the effectiveness of those U.S. trade laws that are already on the books.

Upon its completion, we must look at how an Agreement is to be implemented and enforced based on the possibility of new dispute resolution provisions. In the past, there has been a dramatic difference between the way that Congress and the Administration view our trade laws: The Administration views the U.S. as a defendant while the Congress views the U.S. as a plaintiff.

As a result, we should be wary of a strong dispute resolution mechanism if the underlying agreements in each of the 14 negotiating areas aren't completely acceptable.

If a strong dispute resolution mechanism is combined with weak agreements, a lower standard is locked-in which thereby diminishes our ability to protect the rights of American workers, farmers and businesses.

Finally, I must emphasize that the U.S. should not trade away any provision of our trade law such as dumping/countervail, Section 301 or the other vital tools that Congress has provided to work for a more level playing field.

North American Free Trade Agreement

I believe a negotiation with Mexico and Canada that will result in a North American Free Trade Agreement could be in our country's best interests. I believe that trade is synergistic -- it doesn't have to be a zero sum game. A NAFTA could provide us with enormous opportunities -- increasing economic growth and opportunity in all three countries. At the same time, I am deeply concerned about the possible effects of an agreement, if it is negotiated poorly.

The economic studies that have been published on a possible agreement not only are tentative in their conclusions but are based on assumptions that may have no connection with reality. It is disturbing that the Administration has yet to produce an economic impact analysis and, it appears from a number of discussions, has no intention of producing an impact analysis. We continue to hear of phantom studies that are bottled up in the bureaucracy because their conclusions don't necessarily support the rosy picture the President has painted.

One of the most comprehensive studies done to date was published recently by the International Trade Commission. In its study, the ITC indicated:

> "(T)he Commission analysis suggests that an FTA with Mexico will benefit the U.S. economy overall by expanding trade opportunities, lowering prices, increasing competition, and improving the ability of U.S. firms to exploit economies of scale. Since these gains are likely to outweigh the costs, the U.S. economy will probably gain on net."

This is not exactly a ringing endorsement of the idea of proceeding with an agreement. I truly want to assist Mexico and the Mexican people in terms of expanding economic growth and opportunity. But I refuse to accept the notion that the American worker should shoulder the burden of reaching an agreement.

I've asked the President to provide Congress with the economic analysis that was used in helping make his decision to enter into these negotiations.

It appears that the desire of the President is to proceed with a negotiation with as limited an agenda as possible. But, we must not exclude those issues which will help determine the competitive nature of our future relations or that will help to improve the quality of life in our countries.

Those issues that appear to be on the agenda are tariffs, intellectual property, trade-related investment restrictions and dispute resolution. While we must have the best possible provisions in a final agreement in each of these areas, this list is simply not sufficiently comprehensive to address the issues that are most important to our bilateral economic future. We've got to address a number of other important issues.

Escape Clause:

It is important that a comprehensive escape clause provision be included as part of the negotiating framework that can act as a stop-gap measure to stem the loss of jobs and business opportunities if there is a hemorrhaging in any one sector. This provision should have an effective trigger that will allow us to ameliorate any negative impact on a sector and reassess what course of action to take.

Rules of Origin:

We must not allow Mexico to become an export platform for the products of third countries to flood our markets. Development of business opportunities by third countries that is designed to aid the Mexican economy rather than fill the coffers of the foreign parent company should be our goal.

If American workers and businesses are going to be taking the risks, they should receive the benefits. Accordingly, I believe that we must have a very strict rule of origin standard regarding production in Mexico.

Transition:

Every study that has been done on the effects of a NAFTA recognizes that there will be dislocations in our labor market resulting from an agreement. I do not believe that the American worker should have to shoulder the cost of providing economic growth and opportunity to Mexico and its people.

We must make a commitment to providing help to those who might be disadvantaged as a result of an agreement. This includes not only a commitment to expanded unemployment insurance for these individuals, but also appropriate training and retraining programs.

Additionally, we must recognize that the US-Canada FTA will be phased in over a ten-year period. It is possible that we may need to allow for as long, if not longer, a phase in period in the case of Mexico.

Wage Disparity:

One of the principal issues that is raised by the NAFTA is the question of how we address the substantial wage and standard of living disparity that exists between our two countries. Our goal must be to raise the wages and standard of living of Mexicans, not lower our own.

The NAFTA raises a very important question that needs to be addressed not only in the context of the negotiations, but as we look to the future of our economy and our standard of living. The choice is clear: are we to depend primarily on low-skill, low wage jobs or are we going to pursue policies that will foster high-skill, high wage jobs?

I believe we need to use this negotiation as an opportunity to develop policies to upgrade the skills of our workforce and to encourage business to treat their workers as an asset.

Environment:

Without a provision on environmental controls, this agreement is likely to increase pollutants in and from Mexico and drain jobs from the U.S. needlessly.

The Clean Air Act and other U.S. environmental laws do add to the cost of doing business. In addition to the health and quality of life impact of Mexico's more lax environmental standards and enforcement, I am concerned that many American companies may relocate their operations because of this "comparative advantage." We must not allow this to happen. It would not be in the United States' or Mexico's best interest.

Indeed, it is tough for U.S. companies to compete against firms that operate under more lax environmental enforcement schemes. This laxity can, in fact, operate as a subsidy.

I think that environmental issues be included on the negotiating agenda. Additionally an environmental assessment of a NAFTA should be conducted.

Worker Rights:

A final agreement must include provisions that protect the fundamental rights of workers. Parties to the NAFTA must recognize that all countries have a common interest in respecting the fundamental rights of workers, in the achievement and maintenance of fair labor standards, and in the improvement of wages and working conditions.

We must refuse to accept an agreement that fails to provide real economic opportunity to the Mexican people. We must address both the substantive law and the procedural safeguards in this important area.

Labor Mobility:

I believe that the issue of labor mobility must be carefully considered. As we look to the future, we must understand the pressure that may be exerted on the wages of lower-skilled workers in this country if the issue of labor mobility is not critically addressed.

Human Rights:

The Salinas government has begun to move against police and government officials accused of human rights violations. We must commend the Salinas government. But, we must also use the NAFTA negotiations as a means of support for the Salinas government to make further efforts to curb human rights abuses.

Conclusion

The granting of fast track is not an issue to be taken lightly. Before any decisions are made, we must examine the substantive questions that are involved. I am awaiting the response to my letter, as I know Chairman Rostenkowski is awaiting the answer to his letter, to make a decision. The President has got to earn our support -- today, and throughout the process. What we are talking about this morning is an issue larger than U.S.-Mexico trade or the procedural treatment of an agreement; it concerns the wealth, the earnings and the future of this country's economy. We must raise these issues, and solve them to our satisfaction -- and the to satisfaction of our trading partners -- because we will have to live with the consequences for a long, long time to come.

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Chairman ROSTENKOWSKI. Thank you very much, Dick, for a very informed and in-depth statement. I am sure that my colleagues on the committee join me in expressing their appreciation.

Are there any questions of the majority leader? Dick Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

I, too, would like to welcome our colleague back to the committee.

Dick, I appreciate very much your serious reservations about the North American Free-Trade Agreement, and I basically support one, however, not unconditionally. I probably share many of your concerns, and I am not convinced that Mexico is 100 percent committed to removing barriers posed to U.S. exports and investors, especially by the parastatal entities. I do have some skepticism over their willingness to provide adequate and effective intellectual property protection.

But when I look at the world and see an increasingly developing trading block situation around the world, as epitomized by EC 1992, my greater concern is that we be in a position to counter that type of thing.

As a consequence, I think not only a North American Free-Trade Agreement but perhaps even a hemispheric free-trade agreement is going to be vital to put us in not only a strong but perhaps even dominant position in world trade in the next 5 to 10, and 15 years, and on downstream.

I just want to have your comments on that. Quite often, we usually agree on trade issues. I share your concerns, but it seems to me when I look at the overriding concern, I am really more concerned about this 10-year view that we will not get behind the curve in this international competition.

Mr. GEPHARDT. Well Dick, I think you have expressed a very important argument and a very important thought that we need to keep in our mind as we go through this.

I share the view that it would be important for us to not only have Canada with us, but to have Mexico, to have Central America, even someday perhaps to be able to have South America, combined with the United States, in a free trade agreement, implemented over a period of time, that would allow us to meet up with the other giant competitors in the world and Europe and the Pacific Basin.

All I am saying is that we have got to be very careful about how we do it, and we have a bigger challenge than even the Europeans had. The reason for that is because of the great differences, not between Canada and the United States, but between the United States and a Mexico or a Central America or many countries in South America.

It makes the amalgamation of those economies much more difficult. Let us look, for instance, at the European Community and how they handle the countries in their midst that have a lower standard of living, Greece, Spain, and Portugal.

It took them a long time to work out an agreement where they would all be fused into one trading block, as you know. If you will look at the record, you will see, as I am sure you have, that the countries with a higher standard of living carried on for a long time subsidy programs and are still carrying on subsidy programs

to the countries that had a lower standard of living in order to bring them to a point where they could work out their concerns and problems.

In addition, the disparity in wages between even a Germany and a Spain, or a Germany and a Greece is far less than the 10 to 1 wage disparity that exists between the United States and Mexico.

I say that only to point out the immensity of the challenge that we face in trying to do this treaty, and the kinds of issues that we have to pay attention to, or else what could be a good treaty will be a bad treaty and will not inure to our benefit.

One last thought. One of the issues in United States-Canada was rules of origin, as you know. I think we made a bad deal in terms of the auto situation in terms of content. One of the great concerns that I have is that Mexico will be used as an export platform by some of our friends in the Pacific Basin.

So again, if we are going to have this kind of a treaty, we have to make sure it works to our benefit and the benefit of our partners in the region.

Mr. SCHULZE. I couldn't agree more, and also in the area of dispute settlement. I think it is going to be absolutely essential, and in your statement I think you said a weak agreement with a strong dispute settlement is no agreement at all, and I couldn't agree more. I think we have got to have a sensible dispute agreement.

Chairman ROSTENKOWSKI. Mr. Downey.

Mr. DOWNEY. Thank you, Mr. Chairman.

Dick, I want you to address, if you would for a minute, this notion of protecting American workers in the event that we move toward a free trade agreement with Mexico over time.

Right now, we have eviscerated the trade adjustment assistance program, and I think the administration touts its EDWA program as being there and available for American workers in the event that we move ahead and they are dislocated.

Can you give us some sense of whether you think either of these programs are adequate, and if not, what we should be looking at? I think in your comments to Dick Schulze, you made the point that the Europeans made sure that there was a compact, a social compact, with the different countries that were being incorporated so that those workers wouldn't be hurt.

I am very much concerned that we just don't have the adequate tools to protect American workers in the event that we move toward a trade agreement with the Mexicans.

Mr. GEPHARDT. Well, you have identified what I think will be probably the major sticking point in getting a treaty, if there ever is one, agreed to.

In my view, what we did in GATT with training adjustment assistance was the attempt by that administration at that time to get the Congress to go along with the GATT treaty.

As the members of this committee know probably better than anybody in the Congress, the commitment to training adjustment assistance has never really been kept. It has been cut each and every year. I think in the last round, it was cut almost completely out. It is very hard to get the training adjustment assistance because of the way it functions.

The administration is now saying that this new program in the JTPA is available and is the answer to our problems if it is modified. My attitude is that once this treaty is done, there has to be a training/unemployment insurance component in place as an entitlement that is available to the workers who are going to potentially be affected.

We obviously would hope that after the treaty is done, nobody is affected. But let us face reality and face the reality that somebody is going to be affected. There would have to be in place, in my view, a program that is an entitlement, not just a promise, not just a hope, an entitlement, a commitment, an ironclad commitment that that kind of training is going to be available.

Let me just make one other point. Somewhere here along the line, we have to make a decision about what kind of a society we want in the United States in terms of standard of living and wages.

In my humble opinion, if we continue down the road of trying to compete with the Mexicos and the other countries that have a lower standard of living by lowering our standard of living to meet theirs, or moving the jobs to those countries, we will have a certain outcome in this country. That will be we will have a much lower standard of living.

I think we have to decide that we want a high standard of living. That dictates a lot of decisions that we have to make about how work is organized in corporations, and how much commitment we make to the training and education of our workers. If you want high pay, you have to have high skills. It is just that simple.

This whole issue is tightly interconnected with any decision that we make on any free trade treaty.

Chairman ROSTENKOWSKI. Any other questions?

Mr. LEVIN. Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Levin.

Mr. LEVIN. Mr. Chairman, thank you. I congratulate the majority leader on his statement. I hope not only your written statement will be heard, but also your responses to the questions and comments of my colleagues.

Perhaps more than any, your comment of the last minute or two, shows what is really at stake here. The President of Mexico said to us, look at the broad perspective, and he painted Mexico's. You have just painted the backdrop against which everything, I think including a free trade agreement, must be viewed.

You referred to transition, and Mr. Downey asked questions about TAA. It is vital there be a provision for transition, but your last comment makes it clear we have to ask, transition to what?

I hope also everybody will take into account your statements about rules of origin and what happened in the United States-Canada agreement, where we were left, take it or leave it, and we are still taking it on the rules of origin.

And also, if I might say, I hope also your comments about GATT are taken very seriously. The main focus is on United States-Mexico, but as you point out, there is much left to be done relative to GATT. I think fast track should proceed there, I would hope with some serious discussion between the administration and the Congress so that we know where they think they are going after 4 years.

Your comments about dispute mechanisms and the like are, I think, very much in order.

I simply wanted to congratulate you on your statement. I think that you have shaped the broad framework within which we must conduct ourselves. I wish you well carrying the message in these halls and throughout the country.

Chairman ROSTENKOWSKI. Mr. Pease.

Mr. PEASE. Thank you very much, Mr. Chairman.

Thank you, Dick, for your excellent testimony. I was particularly pleased with your initial comments on fast track authority, because it seems to me that there is a lot of misinformation going around Washington, and that we badly need to clear away some of the fog that has been generated.

The administration is trying to say two things about fast track. First, they are trying to say that if they don't get fast track, there won't be any negotiations and USTR might as well close up shop. Carla Hills has said more than once that there is no reason to have a USTR Office if we don't have a fast track. I think that is not true, and is being used by the administration as a way of trying to rush the Congress into approval of fast track.

The other thing the Bush administration is saying is that denial of fast track in relation to Mexico at this stage would be a grave affront to Mexico, and that we can't afford to do this because we would be casting aspersions on our neighbor to the south, and the Mexicans would take this as an insult, et cetera, et cetera.

In other words, the administration is trying to put Congress in the position where it cannot fail to approve fast track even if it has grave misgivings. This makes me more concerned about fast track than ever, and makes me want to follow your advice and get the administration pinned down on a variety of issues prior to the granting of fast track. If the administration is using the argument that we can't afford to offend Mexico in relation to extending fast track, surely the same argument will be used when it comes to approving a free-trade agreement that is eventually negotiated.

So, if we approve fast track now without building in these safeguards, we are going to wind up with an agreement negotiated in as little as 6 months, and then the administration will say, well, you can't turn the free-trade agreement implementing bill down because this would be a grave affront to Mexico, and we will be in a no-win situation.

I think the point is that we need, at this stage of the game, in the next 5 or 6 weeks before deciding whether to extend fast track, to have a very clear understanding from the administration on what it will do, and what it will not do, about some of the important issues that you raised.

Certainly, as I have said before, I am not the least bit encouraged by what the administration has said in the last 6 weeks on either adjustment for American workers who are surely going to lose their jobs or on any of the issues like the environment that you have mentioned in your testimony.

Mrs. Hills was before this committee about a month ago. I tried to posit an example of manufacturing workers losing their jobs because of low-wage competition from Mexico and United States

plants moving down there. The problem is, Mrs. Hills would not even admit that anybody is going to lose a job in the United States.

If the administration is not willing to even recognize that there will be job losses, then surely we can't expect it to be sympathetic toward adjustment mechanisms for workers. When the administration comes along and urges repeal of the only trade-related adjustment program that we have, this is very, very disturbing to me.

So, I think you are exactly on the right track, and I commend you for your excellent testimony.

Mr. GEPHARDT. Mr. Pease and members of the committee, let me reiterate something I said in my testimony, because I think it is important to keep in your mind.

That is to again say that fast track is two things. First, it gives the President a time certain in which he can get a vote on implementing legislation. Second, it says that there will be no amendments. But as I said in my testimony, we cannot, even if we want to, give up the rules of the House.

Nothing in the statute contravenes the rules of the House. Under the rules of the House, we have the ability to fashion a rule for the consideration of the implementing legislation that will allow amendments to the kind of macroeconomic issues that I have mentioned and that Chairman Rostenkowski and Senator Bentsen mentioned in their letters.

So if we are displeased with the implementing legislation's treatment of the transition in the treaty, or we are displeased with the provisions on worker training or on rules of origin or on labor mobility or the environment, there is no reason we can't fashion amendments in the House to make changes in those provisions.

Chairman ROSTENKOWSKI. Mr. Anthony.

Mr. ANTHONY. Thank you, Mr. Chairman.

Welcome, Dick. I would also like to go on record as complimenting you on a very thoughtful presentation. It talks about a lot of the difficulties that I personally reached before I finally made a public decision to support fast track.

I especially like the comment that you just made, and I would like to ask a question concerning the authority. You talked about the authority on the back end about fashioning a rule that would allow us an opportunity to possibly change any future agreement should a negotiation be successful.

Is there any attempt on the front end to do that, to separate GATT fast-track extension versus a negotiated treaty with Mexico?

Mr. GEPHARDT. I did not treat that in my testimony. That is a decision that the committee will make a recommendation to the Rules Committee in the way the legislation is presented.

Mr. ANTHONY. So at the moment, there is no indication as to whether or not there will be an attempt to separate the two issues on the front end?

Mr. GEPHARDT. No.

Mr. ANTHONY. Well, I think that it is important, and I am glad that you stressed additionally the fact that the Congress does have that authority. I have a lot of concerns and a lot of issues that I personally want to address.

I think the only way that we can look at it is, if in fact the fast track authority is granted, is that each one of these concerns

almost has to be acted like it is an amendment to our trade ambassador, and it has to be debated and they cannot have a markup during their negotiations. And if that markup doesn't come to suit us, then we have the final authority to vote no because they didn't treat our particular areas the way that we thought we needed them.

Just based on all of the considerations, the pros and the cons, on balance I think that we ought to give the President the authority to move forward. I think economically it is better for the total set of circumstances, but I think you have set the principles straight in terms of what some of the difficulties are.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. McGrath.

Mr. MCGRATH. Thank you, Mr. Chairman.

Welcome, Dick.

Let me first make the statement that I really believe it is unfortunate that when President Bush and President Salinas announced their intention to negotiate on FTA, they emphasized that it could be done within 6 months. Many Members oppose the FTA because of this tight negotiating schedule, and I agree with you that they had reason to be concerned. I am glad that Congress has succeeded in slowing down the talks somewhat.

Dick, do you agree that the fast-track mechanism puts parliamentary forms of government on the same plain as the Congress, the legislative branch of the United States, and that is the reason the Congress created it in the first place?

Mr. GEPHARDT. Well, I think we have it for the historical reasons that I tried to cite in my testimony. I think the reasons that we have supported fast track have kind of changed over the history.

One of the reasons, obviously, that people have wanted fast track from an executive branch viewpoint is that they don't want to be in a multilateral negotiation with 100 countries, reach a whole series of agreements on all kinds of commodities and products, and then have the Congress bring up 650 amendments on crowbars, mousetraps, bat handles, broom handles, and 95 other things and drive everybody crazy with changes that they have to go back to the table and renegotiate.

I think it is a little different when you are in a bilateral or a trilateral situation, where you could, on large issues, if there is real difference left between the countries, go back and try to get those adjusted or fixed.

As you will remember in the Canadian treaty, we had a negotiation going on between the trade negotiators and Members of Congress and Canadian negotiators, and probably Canadian parliamentarians and Canadian and American citizens about what the final provisions should be.

All I am suggesting is that, even if we wanted to, we cannot give up our right to fashion a rule to try to deal with some of those macroeconomic issues and in fact, I think that will force at the end the kind of final negotiation that must go on if this thing is to finally succeed.

Mr. MCGRATH. Let me, since you are in the position to dictate these rules, ask you what——

Mr. GEPHARDT. These are not my rules, these are the House's rules.

Mr. MCGRATH. Well, you are the dictator of the House rules.

Mr. GEPHARDT. No, I am not.

Mr. MCGRATH. Let me ask you this question. Let us say, for instance, that the President does not respond in the manner in which you feel that he should in this particular case. Are you prepared to bifurcate the issue of the Mexican-Canada Free-Trade Agreement from the GATT and allow for a fast track to occur for that?

Would you propose that to the Rules Committee as something that might be feasible in the House, since seemingly we only have another month to do this, at least in the House, before the June 1 deadline?

Mr. GEPHARDT. Are you asking if a decision has been made on splitting this issue for fast track?

Mr. MCGRATH. I am not asking you whether a decision has been made, I am asking you whether or not that would be something that you would consider as a possibility, if the President did not respond to yours and the Chairman's concerns to the extent that you feel that he should?

Mr. GEPHARDT. I really believe that we will listen to the recommendations of the chairman of the committee and the chairman of the subcommittee and the members of this committee on that as it goes to the Rules Committee. No decision has been made on that particular issue.

Mr. MCGRATH. And no fallback position has been established at this particular point in time?

Mr. GEPHARDT. No.

Mr. MCGRATH. Thank you.

Chairman ROSTENKOWSKI. Mr. Dorgan.

Mr. DORGAN. Thank you, Mr. Chairman.

Congressman Gephardt, I simply wanted to point out that in your statement, you represent something that I think is critically important in this debate.

For nearly 10 years, we have been hearing from people who have tried to convince us that there is something almost unholy about pursuing a strategy that represents what we perceive in this country to be in our own economic strategic interests. That is not unholy. It seems to me that is part of what we must be involved with when we negotiate trade agreements.

I simply wanted to say to you and others again, what bothers people out in the country when they hear about this murky byzantine area of international trade, which is very difficult to understand, is the result of it. We have done a United States-Canada Free-Trade Agreement, at the end of which we have been flooded with grain from Canada coming across the border in North Dakota, collapsing our durum market and collapsing our price.

A young woman from North Dakota who married a Canadian tried to take 3 bushels of wheat back in the back seat of her car to bake bread up in Canada, and at the border they stopped her and had her pour all 3 bushels on the ground, because you can't take 1 bushel of wheat into Canada.

And that is what our negotiators at the end of a free-trade agreement represent to be a good trade agreement between this country

and another country, and the folks back home look at that and scratch their head, and they ask why on earth is this being represented as a free-trade agreement if you have a border that is wide open in one direction and closed in another.

There is nothing unholy about representing our own economic and strategic interests in this country when we negotiate trade agreements overseas. You referred to that in your paper, and I think that is something all of us ought to keep in mind as we discuss what our posture ought to be with respect to free trade.

I am for free trade, but I am also one who insists that trade between our borders be fair trade.

Mr. GEPHARDT. I thank the gentleman. This treaty is going to be different than most that we have seen. It may not be known to all of us, but when the United States-Canadian negotiation was going on, it was the number one issue in Canada every day that it was going on. It was on the front page of every paper in Canada almost every day.

You could barely find out here that there was a negotiation going on. They had a national election over it, and the Prime Minister almost lost, and this was the only issue.

I dare say that you are going to see in this treaty, in this negotiation, a much higher level of interest for the very reason that you just said, and because American workers and businesses do feel threatened today, as they have not felt threatened in the past about our standard of living, you are going to see this be a number one issue in the United States.

Chairman ROSTENKOWSKI. Mr. Moody.

Mr. MOODY. Thank you very much.

Dick, I certainly appreciate your analysis, and I think it is right on target.

I and six other Members of the Congress just spent 5 days in Mexico. We spent a day and a half at the maquiladora area, and then the rest of the time in Mexico City talking to business leaders, labor leaders, and government leaders.

I don't have to recite to you what is happening in the maquiladora area. You know the environmental conditions there are horrendous, and of course only one point along the entire 1,800-mile border is there any independent unionization of Mexican workers. Everywhere else the union is affiliated with the Government.

I believe what Mr. Dorgan just said about grain applies to beer. I am from a beer town. You are from a beer town. As you know, the Canadian free-trade agreement did nothing for beer. In fact, it basically sold out beer, which provides a lot of jobs in certain parts of the United States.

Let me make three quick points. Number one, along Don Pease's line, administration officials seem to be partly selling this plan on a foreign policy basis, rather than on a purely economic basis. They say it would be an affront to our neighbor, Mexico, if we don't pass this on a fast track. But if they keep saying that loud and loud enough, it becomes a self-fulfilling prophecy.

If we keep saying this is going to be an affront, well then of course it becomes an affront. There is almost no attempt by this administration to sensitize the Mexicans to the internal processes

of the United States, whereby the Congress has a meaningful role to play, quite different than the one in Mexico.

As you probably know, the House of Representatives in Mexico won't even be voting on this. It will solely be voted on in the Senate, where the Salinas party controls an overwhelming majority. So they are not anxious to democratize the process in that country, but I don't think we should allow the administration to sell this on an up or down vote on how we feel about Mexico as a neighbor, which they are intent on doing.

Number two, you said that the administration should earn the support of Congress. I agree with that, and yet the administration has not yet provided any serious economic analysis or job analysis of what this agreement would do. The ITC has done an analysis whereby it points out that non-high-skilled individuals could lose.

There will be winners and losers the ITC concluded, but it was a little bit vague as to who would be the winners and who would be the losers. The losers could be up to 50 percent of our workforce depending upon the definitions of higher skill and lower skill workers.

I asked for some followup on that question, and the ITC has written me a note. It makes a number of assumptions and tries different cases and scenarios. But almost under every case, the high-skill wage earners make double, triple, and sometimes fivefold the benefit of the moderate wage people in our society.

Under one circumstance, moderate wage earners would actually lose. Under most of them, the ITC claims that they would gain, but the composition of the benefit is very disparate, and that has not yet been brought out in the debate.

My third point, briefly, is that environmental issues become economic issues because companies face lower cost structures when they don't have to observe environmental standards.

Let me just add that it also matters in the area of worker rights. It is often claimed that we shouldn't fear countries that have lower wages because, after all, they have lower productivity. We have higher productivity.

Well, that is a fine argument if and only if the workers in that lower wage country are allowed to organize so that they can raise their wage approximately to the level of their productivity. But if their wage is held far, far below the level of productivity because of the inability to unionize or collectively organize, then that argument falls to the ground.

I think it is pretty clear that the difference between productivity and wage is far different in Mexico, where unions are typically very weak, than they would be in this country.

So those are three points I want to offer for your consideration. Any response would be appreciated.

Mr. GEPHARDT. I thank the gentleman. I think that you have made a very important point, and that is that as we look at these issues, they are interconnected. Environment is an economic issue. Workers rights is not just a theoretical foreign policy issue, it is an economic issue.

All of those issues and others together make up the existence of the problem of the difference between our societies and indicate

the difficulty that we are going to have in trying to fuse these two economies.

Again, in Europe, with very much less disparity in the way their economies were set up and in their wages, they have had a long transition in bringing these countries in, and they have carried on large subsidy programs from the higher-wage countries to the lower-wage countries—nothing that is even being contemplated, to my way of thinking, in this treaty negotiation.

So, this is going to be a tremendous challenge to put this together, and it is something that deeply affects American jobs and American workers. In a democracy, there is no way to do this unless we are all doing it together and working out painstakingly the provisions that could make up this treaty.

Chairman ROSTENKOWSKI. If there are no further questions, the requests for questioning time——

Mr. SUNDQUIST. Mr. Chairman?

Chairman ROSTENKOWSKI. Mr. Sundquist.

Mr. SUNDQUIST. Thank you, Mr. Chairman.

Mr. Leader, we appreciate your testimony as always.

Mrs. Hills' name has come up a time or two, and I just want to remind my colleagues that in her testimony, and I quote, she said:

> Fast-track procedures preserve Congress' role during the negotiation approval and implementation of trade agreements. The fast-track statute includes extensive notification and consultation requirements with both Congress and the private sector. I think that is important.

Mr. Leader, as I understand your testimony, and it is very insightful, you are not opposed to fast track. You want to make sure that the role of Congress is preserved and that certain issues are strongly considered.

I think we have a history in the Congress and with administrations of going through very difficult and complicated trade negotiations, and I believe I am right that using fast track this country has negotiated three very remarkable agreements that were approved by an overwhelming majority of both Houses of Congress, and that was the Tokyo round in 1979, Israel Free-Trade Agreement in 1985, and the agreement with Canada that you referred to in 1988.

I appreciate the fact that you are not opposed to free trade but you want to protect the role of Congress. Is that a fair understanding of your testimony?

Mr. GEPHARDT. I think it is, Don. I think what I am trying to get across today is that while Canada, Israel, Tokyo rounds were difficult, complicated, Congress was involved. It was a big challenge. We got over it, we did it.

But in my view, this negotiation is in a far different league than any of those negotiations, because, as I have said over and over again, of the difficulty of fusing these two very, very different economies.

Before I am ready to grant this authority, I want to be assured by the administration that the issues that we have all together said are important in this are going to be on the table in that negotiation, or if they are on the side, they are going to be brought in at the end.

I don't want any side tracks on the fast track—where workers rights get lost, or environment gets lost and it never shows up again. We have seen that before. It has all got to be there in the end.

I am not saying they have to achieve a certain result. I know this is going to be hard to do, but we want a commitment that they are going to deal with these kinds of concerns which are, as you know, deeply held fears and concerns on the part of our people, so that when we are finished we can look at it and evaluate it, and we will do that all through.

I hope we are going to see in this negotiation a far higher degree of concern and interest and involvement on the part of all of our people than we have ever seen before. And then when it is over, what I am trying to say is that Congress, even with fast track, does not give up its ability to go back at some of these large, macroeconomic issues and say this particular provision just doesn't get it. It is not good enough. We have got to do better.

Mr. SUNDQUIST. Thank you very much.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Andrews.

Mr. ANDREWS. Thank you, Mr. Chairman.

Mr. Leader, I want to thank you for your testimony. I think it has been very, very useful.

I support the fast track, and like most Texas leaders from Governor Richards to civic leaders like Henry Cisneros, I think this is a tremendous opportunity for States along our border to change conditions that have existed for generations.

You are certainly right in your testimony that there is a great disparity between our quality of life, even along our own border, and that in Mexico. We would be wrong and irresponsible if we failed to really seize this opportunity to change those conditions.

If this hearing room could all be moved down to the Rio Grande Valley today to some of those poor counties, you would be angry to see the environmental conditions and the quality of life that those people are forced to live in.

The truth is, when it comes to the environment, there is no border. The Rio Grande today is one of the most polluted rivers in the world, and for anyone in the administration to suggest that we should not work on this issue as aggressively now as ever before I think is being irresponsible.

Saying that, I do think the fast track is the right approach, and I think most Texans agree.

I guess I would like you to give me your thoughts about how could we structure this agreement. If you were going to make some suggestions to the administration or to this committee or to Congress, what should we insist on? How do we do this structurally?

How do we make this environmental issue, this health and safety issue, a part of these negotiations so that it sticks. So we get more than just words from the administration—that they are seriously considering these issues? How do we lock this in appropriately and still have a fast-track procedure?

Mr. GEPHARDT. The trade negotiators have said to me, and I am sure they have said to some of you, that they are not really equipped to deal with those issues, that they are issues that have to

be negotiated by other people in our country who are in charge of our Environmental Protection Agency or whatever.

I don't have a problem with it being a side negotiation, or in a different room, or a different place involving different people. But when it is over, I want the conclusion of that negotiation to be brought back into the main treaty as an addendum or another provision in the treaty, and I want it to be treated, to the extent it needs to be, in the implementing legislation.

You all understand, of course, we don't pass on a treaty in the House, we pass on implementing legislation. So I want whatever should be in that on that subject to be in the implementing legislation.

Let me tell you why this is a problem. In the GATT, we ask that workers rights be part of the negotiation. The truth is that it hasn't been part of the negotiation. It was put into a side negotiation, and the reason for that in my view—and I may be wrong—is that there is so much opposition in other countries in the GATT to really coming down and cracking down on those issues, they didn't want it in the main negotiation. For one thing, it would have given us tremendous leverage perhaps on other issues.

And so it got sidetracked. It is not going anywhere. It is never going to show up, in my view, in the final GATT agreement. We are never going to hear from it again.

What I don't want to have happen here procedurally is to have an agreement that they commit to deal with workers' rights and then it goes off to another negotiation that never gets heard from again. I think we have to insist that they commit that these matters are going to be treated.

We can't tell them now how to get the results and what it is going to contain, but that it is going to be treated and that it will be back in the treaty and in the implementing legislation at the end of the day.

Mr. ANDREWS. Thank you.

Chairman ROSTENKOWSKI. Mr. Jenkins.

Mr. JENKINS. Thank you, Mr. Chairman.

Dick, I appreciate your position and your statement. I urge you to remain firm in that position because every single time we negotiate, we end up giving in at the end, and as a result we are losing the manufacturing base of this Nation.

Ultimately, we shall pay dearly and it is not that far away. Whether it is workers' rights or a host of other issues, we end up caving in at the end of the negotiations.

Now we think as a nation, apparently, that we can continue to carry everybody else on our backs. We cannot do that. Yesterday, the subcommittee met with representatives of Taiwan, a great ally and friend. They are spending $300 billion over the next 5 years for infrastructure—$300 billion by Taiwan.

We are negotiating over a small infrastructure highway bill. We don't have the money today to do a lot of things that our smallest trading partners are able to do, and at the same time we think that the end of the world comes if fast track is derailed.

At some point, I would hope that the American people would speak up and say fast track or slow track, let us look after our own people first and foremost. I urge you to remain strong. Now is not

the time, in the depths of a recession, to be talking about giving away more American jobs.

Thank you for your testimony.

Chairman ROSTENKOWSKI. Mr. Rangel.

Mr. RANGEL. Thank you, Mr. Chairman, and thank you, Mr. Leader, for taking so much time and exercising such patience with us.

As you know, 30 percent of the heroin that comes into the United States is grown and processed in Mexico, and even though coca leaves are not grown there, over 50 percent of the cocaine actually crosses the Mexican border.

I fully recognize and believe that this is not the instrument in which to work out any type of war against drugs agreement, but it just appeared to me that America could not afford just to ignore what is happening with that border and not have some mention of it.

Ambassador Hills has indicated that she is pleased with the aggressive fight being waged by President Salinas' administration, and I have to support that completely. But, somehow it appears as though diplomatically this issue should not be raised

Now, if it was being raised by the Secretary of State or the Attorney General or the drug czar before or after or now, or if it was being raised by anybody, then certainly I would not be raising it as it relates to a trade bill.

Do you have the same strong feelings about even discussing this issue while we talk about a free trade bill?

Mr. GEPHARDT. I think you have to. I think it is an issue of relevance to the negotiation. I think it is an issue that you correctly pointed out, for a long period of time is not being dealt with correctly, and I urge you to continue to assert it and try to get, perhaps, some improvement that can come through some of the various provisions that might be reached in this agreement.

Hopefully, we are going to, as a result of any treaty that could be reached, increase the ability to bring products back and forth, so if drugs are moving already back and forth pretty efficiently, I think you have to deal with the law enforcement issues as well.

Mr. RANGEL. Thank you, Mr. Leader.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Are there further requests for questioning time?

Mr. Leader, thank you very much for your observations. They are most helpful.

Mr. Bieber and Mr. Donahue. Gentlemen, welcome to the committee. We know that you represent labor in its best fashion. Mr. Donahue, if you would like to begin with your testimony, the committee is ready to receive it.

STATEMENT OF THOMAS R. DONAHUE, SECRETARY-TREASURER, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS [AFL–CIO], AND CHAIRMAN, LABOR ADVISORY COMMITTEE FOR U.S. TRADE POLICY AND TRADE NEGOTIATIONS

Mr. DONAHUE. Thank you very much, Mr. Chairman.

I am Tom Donahue. I am secretary-treasurer of the AFL-CIO and chairman of the Labor Advisory Committee for U.S. Trade Policy and Trade Negotiations.

Mr. Chairman, we welcome the opportunity to give you our views on fast track, both in the Uruguay round and in a projected United States-Mexico or United States-Mexico-Canada or North American Free-Trade Agreement.

As for the Uruguay round, we do not believe that the developments over the last 4 years in those negotiations warrant an extension of fast-track authority. Little or no progress has been achieved on a number of the objectives which the Congress set forth for those negotiations, such as linking worker rights to trade and establishing the right of nations to fund trade adjustment assistance with import fees. Both of those items are long gone from the table.

In addition, we are concerned that in some areas, United States rights and interests are going to be compromised in the Uruguay round negotiations. There is a very real danger that our textile and apparel industry is going to be sacrificed to the administration's goals for agriculture.

An extension of fast-track procedure would also undermine our credibility, it seems to me, with our negotiating partners overseas. We entered the negotiations, they clearly understood the significance of the deadlines that were imposed by the expiration of fast-track authority. We are now saying that we will extend that.

I submit that if the fast-track advantage is restored at this time, it is going to make meaningless any other deadlines that our negotiators try to impose.

Let me turn to the subject of fast track for a United States-Mexico, United States-Mexico-Canada, or North American Free-Trade Agreement, a common market covering the hemisphere.

The question is always why are we opposed to fast track? I submit the real question is, why does the administration seek a free trade agreement with Mexico in the first place?

We are negotiating in the Uruguay round. We now propose to negotiate to extend that round, and yet to negotiate with Mexico at the same time on the same issues. We are going to negotiate with Mexico on tariff/nontariff barriers, intellectual property, and investment restrictions.

That might mean that we have just quietly given up on the Uruguay round and we are now pursuing those goals in a different arena, in direct negotiations with the Mexicans. But that can't be true. Mrs. Hills tells us that she still has high hopes for the success of the Uruguay round.

No, the truth is that one of the most important reasons we pursue a Mexican negotiation is purely political. The current administration in Mexico seems to share the economic views of the Bush administration, and the White House wants to help it consolidate power.

Another reason for pursuing such an agreement is that our United States-based multinational corporations want to be sure they can count on a plentiful supply of cheap labor nearby, and the Uruguay round can't provide that for them.

Yet another motivation is that a free trade agreement would eliminate the incentives that the law currently provides to encour-

age the use of U.S.-made parts in the maquiladora assembly plants all along the border.

As the committee knows, we have been strongly critical of that export operation because of its negative impact on U.S. employment. But even the jobs we have making parts in the United States that are used in the maquiladora will be jeopardized under a free trade agreement.

They would not dare come to this committee and see to amend section 807 to allow those maquiladoras to use Mexican-made parts, but they are going to accomplish that through the back door with the Mexican free-trade agreement.

The center of the debate is over who is going to get hurt and who is going to be helped. We submit that the workers of the United States are going to be hurt. The agreement would pave the way for the loss of hundreds of thousands of jobs that will be exported to Mexico, and the debasing of American wages.

You have a preview in the maquiladora of precisely what will happen. There are a half a million jobs in the 1,900 plants in the maquiladora belt. They employ predominately women, ages 16 to 22, and they pay them between $27 and $29 for a 40-hour week.

We have seen, and you have seen, Mr. Chairman, and every member of this committee has seen plants close in your district, and you have seen them raise their heads again in the maquiladora. You have seen the shipment of jobs out of your districts and into Mexico. It is true all over the United States. This is not a Rust Belt phenomenon, this is not New England, this is the Midwest, this is lower California, this is Texas.

We will never know precisely how many jobs have been lost or how many lives have been shattered. No one has the exact numbers. The only thing we know is that those numbers are going to mushroom under a free trade agreement.

We know that open trade in agriculture is going to benefit the agribusinesses of this country, and we know that the smaller producers of vegetables and citrus are the people who are going to be hurt.

Does that mean everybody is going to suffer? No. The International Trade Commission [ITC] has said that unskilled workers might suffer a slight decline in real income, while skilled workers and owners of capital services would benefit. I believe that.

I believe, one, that the injury to unskilled workers will be more than slight. I believe that the owners of capital will have a benefit greater than the ITC predicts. The fact is, the people on the bottom of the economy will suffer, in the middle of the economy will suffer. The people on the top of the economy will get richer.

The ITC has refused to define the phrase unskilled worker. We have asked, this committee has asked for a definition for the elucidation of what do they mean when they say unskilled workers. There is no answer yet provided. We have now filed two Freedom of Information Act requests to get that definition.

We believe that unskilled worker in the ITC definition means high school graduates or less. That is 52.5 percent of the United States work force. We are told by Mrs. Hills that there are four economic studies, but apparently they are not yet released or available either to this committee or to the people of the Nation.

What about the Mexican workers? Are they going to benefit under a free-trade agreement? We don't think so. I say to you that in the maquiladora they earn between $27 and $47 a 49-hour week, according to the New York Times.

The Times has documented the environmental degradation along the border, talked about the contamination and the spilling of toxic chemicals. In Nuevo Laredo alone, 25 million gallons of untreated sewage are dumped into the Rio Grande every day.

The National Toxic Campaign says that the maquiladoras are turning the border into a 2,000-mile-long Love Canal. The Wall Street Journal says the maquiladoras have turned much of the border region into a sinkhole of abysmal living conditions and environmental degradation.

No, the maquiladoras have not helped Mexico. Mexican wages in dollar terms fell from the highest in the Third World to among the lowest in the last 10 years. They have contributed little or nothing to Mexico, to Mexican improvement.

The reason for that is simple. The companies who went there didn't go for social purposes. They are not social workers. They went for the purpose of exploiting cheap labor. That is a formula which can't help Mexico, and one which the United States shouldn't encourage.

If fast-track authority is given by the Congress, it is going to ensure that the Congress will be powerless to steer a free trade agreement in a more humane and sensible direction. The Congress will not be able to check even the worst excesses of any scheme that is advanced to help the rich get richer.

The President has said the other day, the credibility of the United States is at stake in the fast-track process. I submit that is a fascinating statement for consideration. The credibility of the United States is at stake over the issue of what process we use to consider a treaty with Mexico.

I ask you to consider what the President will say about the credibility of the United States when he brings back to you a free trade agreement, and what power this Congress will have to consider that agreement with the credibility of the United States on the line.

We have argued, Mr. Chairman, that there is an example for the creation of the kind of community that is talked about and is probably needed in the Western Hemisphere. The example is the European Community. You heard Congressman Gephardt note the creation within the Community of a $68 billion fund to take care of the poorer countries, to help them raise their standard of living.

The Community has a social charter in an effort to bring together the conditions of life in the Community nations, to ensure decent treatment of workers, to ensure nondiscrimination, to ensure protection of workers in occupational safety and health, and so forth.

It took the Community 34 years to get to that state, to the state it will achieve in 1992. Mrs. Hills says she can do it in 6 months. I submit that is not what this country ought to be looking at.

We ought to be looking at all of the problems that we will confront post a free-trade agreement, and dealing with them before there is any free-trade agreement.

We have 8½ to 9½ million unemployed workers in the United States. Mexico has a 20-percent unemployment rate among the 30 million people reported in its work force. The Mexican work force is growing at the rate of 1 million a year.

This Nation cannot keep up with the growth in the U.S. work force. Witness our 9½ million unemployed. We now propose to add to that 1 million more every year, and we will all grow together and we will have wonderful things.

In the European Community, the two nations in that Community which are the pauper nations, the poorer nations, are nations that share a wage disparity to the rest of the community of 1 to 4. The United States-Mexico difference is more than 1 to 10. We are doing nothing about those conditions.

We are not discussing, not only all the issues that Mr. Gephardt cited to you, but we are not discussing the question of external tariffs. We are not discussing the questions of monetary policy or devaluations. We don't know what we are going to do if a new Mexican administration, for example, decides to devalue and increase its advantage over the United States.

Nobody is talking about these issues. They are not going to be considered in the negotiations, and that is precisely why the Congress should not give to the President a blank-check authority for fast track. Implementing legislation for such negotiations can be developed under normal legislative procedures, I am sure, so that this committee and the Congress can discuss the issues, can evaluate the text of any agreement that is brought back, and can modify it where necessary.

Our position, Mr. Chairman, is clear. We are opposed to the free-trade agreement as it is now envisioned. We are opposed to fast-track approval. We are for a stronger continental economy achieved in rational methods, by a broad and deep negotiation with our trading partners that goes on for a very long time and develops the sound economic scheme for merging these two economies.

To do it with a free-trade agreement and ask you to vote it up or down on 60 days is simply the wrong way to go.

Thank you, Mr. Chairman.

[The prepared statement follows:]

91-15

TESTIMONY OF THOMAS R. DONAHUE, SECRETARY-TREASURER, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS, AND CHAIRMAN, LABOR ADVISORY COMMITTEE FOR U.S. TRADE POLICY AND TRADE NEGOTIATIONS, BEFORE THE WAYS AND MEANS COMMITTEE, U.S. HOUSE OF REPRESENTATIVES ON THE PRESIDENT'S REQUEST FOR EXTENSION OF FAST TRACK TRADE AGREEMENT IMPLEMENTING AUTHORITY

APRIL 11, 1991

Mr. Chairman, members of the Committee, the AFL-CIO welcomes this opportunity to present our views on fast-track procedure in the Uruguay Round and the U.S.-Mexico or North American Free Trade Agreement.

As for the Uruguay Round, we do not believe that developments over the last four years warrant an extension of fast-track procedure. Little or no progress has been achieved in a number of congressionally mandated objectives, such as linking worker rights to trade, and establishing the right of nations to fund trade adjustment assistance with import fees.

In addition, we are concerned that in some areas, U.S. rights and interests might be compromised in the Uruguay Round negotiations. For example, there is a danger that our textile and apparel industry could be sacrificed to the administration's goals for agriculture.

An extension of fast-track procedure would also undermine our credibility with our negotiating partners overseas. They clearly understood the significance of the deadlines imposed by the expiration of fast-track authority. If the fast-track advantage were restored at this stage, it would make meaningless any other deadlines that our government would set in future international negotiations.

Let me turn now to some of the questions that surround fast-track authority for a North American free trade agreement.

A question that we often hear is, "Why are you opposed to fast track?" But I would suggest that the real question here is, "Why does the administration seek a free trade agreement with Mexico in the first place?"

The administration proposes that we negotiate separately with Mexico on the same issues that are still being negotiated in the Uruguay Round -- issues such as tariff and non-tariff barriers, intellectual property protection, and investment restrictions.

Does that mean that we have quietly given up on the Uruguay Round, and are now pursuing the goals we once sought there in a very different arena -- a free trade agreement in North America only?

That can't be the case. After all, the U.S. Trade Representative will tell you that we still have high hopes for the Uruguay Round.

No, one of the most important reasons for a U.S.-Mexico free trade agreement is purely political. The current administration in Mexico City seems to share the economic views of the Bush administration, and the White House wants to help it to consolidate power.

Another reason for a free trade agreement is that U.S.-based corporations want to be sure that they can count on a plentiful supply of cheap labor nearby. I will discuss this further, but a critical point here is that the Uruguay Round cannot provide those assurances.

Yet another motivation for supporters of an FTA is that it would eliminate the incentives that the law provides to encourage the use of U.S.-made parts in the maquiladora

assembly plants. As the Committee knows, the AFL-CIO has been strongly critical of that export operation because of its negative impact on U.S. employment. But even the few jobs making parts in the United States that are now part of the maquiladora system would be jeopardized under an FTA.

The center of the debate over an FTA is the question of who it would hurt and who it would help.

It would certainly hurt workers in the United States. It would pave the way for hundreds of thousands of jobs to be exported to Mexico.

We already have a gruesome preview of this in the maquiladoras, the U.S.-owned plants that operate just across the border, exploit Mexican workers, and produce goods that are exported back here.

There are now some 1,900 maquiladoras in operation. They employ about a half-million workers. Hundreds of thousands of U.S. workers -- including employees of Electrolux, Trico, Zenith, Westinghouse, GE, AT&T, GM, Ford, and Chrysler -- have seen job opportunities vanish here and suddenly appear in Mexico.

While this has happened all over the United States, Mr. Chairman, your hometown of Chicago is in an area that has been hit especially hard.

Stewart Warner, Modern Filters, Cooper Lighting, Wells-Lemont, Shure Brothers, and Gould Electric Products have all opened up shop in Ciudad Chauhtemoc.

Quaker Oats and Zenith are now in Matamoros.

Rheem Manufacturing and Sundstrand Corporation have operations in Nuevo Laredo.

And there are dozens of other Chicago-area companies on the list.

We will never know precisely how many U.S. jobs have been lost -- how many lives and households have been shattered -- how much alcoholism and drug abuse have risen -- all because of the maquiladora system. No one can calculate the exact numbers.

But we do know that those numbers would mushroom with the advent of an FTA.

Does this mean that everyone would suffer from a Free Trade Agreement? Not at all. Farther up the economic ladder, the affluent minority would certainly benefit. Even a report from the International Trade Commission has conceded that "unskilled workers" in this country would suffer a "slight decline" in real income because of an FTA, while "skilled workers and owners of capital services" would benefit.

For millions of workers, the decline resulting from an FTA would be much more than "slight." All of the women and men who have lost their jobs can attest to that. But the important point here is that the ITC at least admitted that people on the bottom economic rungs would lose and those on the top rungs would win.

The Commission mysteriously refused to say who it counted as "unskilled workers," but it reportedly included all workers with four years of high school or less.

This would mean that a majority of the U.S. working population would be hurt by an FTA.

By the way, the ITC is now busy trying to repudiate its own report -- but it has not made public one bit of new data that undermines its earlier conclusions about who would win and who would lose.

On the top rungs of the ladder, multinational corporations would hit the jackpot, just as they have with the maquiladoras.

It is easy to see why. The multinationals can take advantage of the terrible poverty in Mexico and pay workers a small fraction of average U.S. wages. Moreover, they do not have to pay for worker's compensation insurance, unemployment insurance, and other protections that have long been considered to be essential in this country.

What about Mexican workers? Would they benefit from an FTA? Here again, the maquiladoras are a preview.

They pay their employees between 27 and 47 dollars for a 49-hour week, according to the New York Times. This is hardly enough for subsistence.

Indeed, the standard of living for maquiladora workers is scandalously low. In Nogales, the Times noted that many workers live in shacks made of cardboard and scraps of wood. For some, the most common building material is a tan cardboard that had contained polyvinyl chloride. On the walls of the cardboard are warnings that the former contents could release hazardous fumes.

There is no question that the maquiladoras have created an environmental inferno for their workers. As the New York Times said, "The contamination along the border runs the gamut from raw sewage to wood smoke to highly toxic industrial chemicals."

In Nuevo Laredo alone, about 25 million gallons of untreated sewage are dumped into the Rio Grande every day.

An investigation by the National Toxics Campaign Fund found "widespread and serious contamination by U.S.-owned firms operating along Mexico's border." The Fund concluded that the maquiladoras are "turning the border into a 2,000-mile long Love Canal."

Yet another report -- one that appeared in the Wall Street Journal -- noted that the maquiladoras' "very success is helping turn much of the border region into a sinkhole of abysmal living conditions and environmental degradation."

There is a great irony here.

On the one hand, the maquiladoras have skyrocketed over the last 25 years, especially in the 1980s. They now account for one-tenth of Mexico's industrial work force, and they are Mexico's second-largest earner of foreign exchange.

On the other hand, they have been an utter disaster for working people in Mexico. In the 1980s -- the boom decade for the maquiladoras -- Mexican wages in dollar terms fell from the highest in the Third World to among the lowest.

Joseph Grunwald, the respected University of California economist, recently wrote in the Brookings Review that maquiladoras "have contributed little or nothing to advancing [Mexican] industrialization, technological growth, or international competitiveness."

Why?

If the maquiladoras were growing by leaps and bounds over 25 years, why have they done so much bad and so little good for those Mexicans that have been affected by them?

It is no mystery. The entire purpose of the maquiladoras -- their comparative advantage in international trade -- is providing multinational corporations with a work force that is poor, desperate, and easily exploited.

The great novelist Carlos Fuentes, former Finance Minister Jesus Silva Herzog, and other distinguished Mexicans have explained the great harm of that comparative advantage.

They have written that it "is too costly for everybody involved: too humiliating and unproductive for Mexican dignity and economic development; too costly in jobs and welfare for American and Canadian workers; too destructive for our common environment and civilization."

Yet this comparative advantage is the premise of an FTA. It would do to most of Mexico [illegible] the maquiladoras have already done to the border areas. Mexico's wealthiest classes, along with investors from the U.S. and elsewhere, would cash in -- but countless workers around the country would suffer the same fate that their sisters and brothers along the border have endured since the mid-1960s.

In short, the FTA negotiations would lead us to a continental arrangement that would take jobs from U.S. workers, guarantee the exploitation of Mexican workers, further foul the environment on both sides of the Rio Grande, and chill the relationships among the peoples of North America.

And if fast-track authority were to be given, it would ensure that Congress would be powerless to steer the FTA in a more humane and sensible direction. It could not check even the very worst excesses of this scheme to help the rich get richer and the poor get poorer.

To appreciate just how short-sighted and mean the FTA approach actually is, it helps to compare it to the 1992 Single Market in the European Community.

The Single Market includes a Social Charter. It sets out rights to a minimum wage, social assistance, collective bargaining, vocational training, and health and safety protection in all of the member countries, partly to discourage runaway plants.

The worker protections in an FTA can be summarized in two words: "Tough luck."

The Europeans have a $68-billion Regional Development Fund to narrow the gap between rich areas like western Germany and poor areas like Portugal and Greece.

Here, the per-capita income ratio of the U.S. and Mexico is a staggering 10-to-1 -- much larger than anything in western Europe. In a free trade area, that would be an economic time-bomb, but the FTA would not provide a nickel to defuse it.

Once again, Congress might want to remedy some of these shortcomings -- but under the fast-track arrangement, it could do precious little.

Mr. Chairman and members of the Committee, we urge you not to sign the administration's blank check for fast-track authority. We believe that implementing legislation for FTA negotiations can be developed -- under normal legislative procedure -- so that Congress has the chance to discuss the issues surrounding an FTA, to evaluate the text of an agreement, and to modify it where that is necessary.

As you deliberate on this issue, we hope that the position of the AFL-CIO is clear.

We are eager to work with you and your colleagues for a stronger continental economy and better relations among the U.S., Mexico, and Canada.

But we will not support a proposal like the FTA that would result in North American workers being laid off, exploited, and poisoned.

The working women and men on this continent cannot bear such a burden, and they should not be required to take it on.

Chairman ROSTENKOWSKI. Thank you.
Mr. Bieber.

STATEMENT OF OWEN BIEBER, PRESIDENT, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA [UAW]

Mr. BIEBER. Thank you, Mr. Chairman.

My name is Owen Bieber and I am president of the United Auto Workers.

I ask that my full statement be filed for the hearing record.

Chairman ROSTENKOWSKI. Without objection, the entire testimony will be included in the record.

Mr. BIEBER. I am delighted to join my good friend and colleague Tom Donahue this morning, and I agree totally with the position that he has just taken.

We, as the UAW, appreciate the opportunity to share with you and the committee the views of our union on President Bush's request for an extension of fast-track authority for the next 2 years.

The UAW strongly opposes the extension and supports the adoption of a resolution of disapproval. My prepared statement covers both the GATT and the United States-Mexican negotiation subjects, but in the brief time I have to speak this morning, I will focus on the United States-Mexico negotiations.

Mr. Chairman, only in the last 5 years has Mexico shown an interest in encouraging much closer economic integration with the United States. During the time known as its economic miracle in the 1960s and 1970s, Mexico did not seek such a relationship.

In fact, it was only after most of the gains of that entire period were lost, when the rest of the world showed a lack of interest in Mexican development, when the policies of austerity endorsed by the United States Government, the International Monetary Fund, and private banks had sucked Mexico nearly dry and created a growing sense of desperation that Mexico's approach to the United States changed.

We believe that the executive branch policies bear some responsibility for the desperation of Mexico's people, and we are concerned that the proposed negotiations will only succeed in prolonging it.

We oppose granting fast-track authority for negotiations limited to trade and investment because closing the gap between the two countries in the effective level of labor rights and standards, environmental standards, and other areas the two governments have ignored is essential to closing the gap in wages and living standards.

We fully understand that the longer it takes to raise wages and living standards in Mexico, the greater will be the adverse affect of the poverty of Mexican workers on the living standards of our members and all American workers.

We are already well aware of the way this linkage works. Since the debt crisis sent the dollar value of Mexican wages for millions of Mexican workers below $1 an hour, the number of maquiladora plants in Mexico has soared.

The Mexican maquiladora program with its tariff benefits and more importantly its acceptance of 100 percent foreign ownership

now accounts for the employment of about 500,000 Mexican workers, producing almost exclusively for the United States market.

We have estimated that more than 75,000 of those workers are producing automotive-related products that were formerly produced in this country. The jobs that have been lost to Mexico do not all involve low skill and low productivity. Many of the auto-related maquiladora plants utilize advanced technology, requiring substantial worker skill and training. Their productivity is comparable to similar U.S. plants.

Yet, the workers in those "world-class plants" have insufficient protection from workplace hazards and exposure to toxic materials, a level of pay that would be unacceptable in any but the most impoverished nations of the world, and living conditions that are unsafe, unhealthy, and overcrowded.

The American workers left behind when these investments move to Mexico and workers faced with an employer threatening to move to Mexico are lectured about "competitiveness," and told that they will have to learn to live with less.

I ask you, Mr. Chairman, less than what? Less than $10 an hour and a $500 copayment on medical insurance? Or is it $6 an hour and a $2,000 copayment?

The Mexican Government touts its maquiladora industry as a successful model of its liberalized economic policies toward imports, foreign investment, and competition. These are the same policies the Bush administration hopes to institutionalize in Mexico through the free-trade negotiations.

For Mexican workers, poverty has been perpetuated, not relieved. For American workers, hard-won wages, benefits, and workplace protections are subject to increased attack from shortsighted employers more interested in the next quarter's profits than the American standard of living.

I am convinced, Mr. Chairman, that granting fast-track authority to the Bush administration for a free-trade agreement with Mexico leads this country and our neighbor to the south in the wrong direction.

In my prepared statement, I have proposed some measures that we could support that would strengthen ties between our two nations without sacrificing our future.

The American people and Congress need a deliberate discussion of that future among Americans and with the representatives of a broad range of Mexican interests, not just the Government and business leadership, before we agree on the direction of economic relations between the United States and Mexico for the indefinite future.

If fast-track authority is granted, you can kiss that discussion goodbye, and the jobs and livelihoods of thousands of UAW members and other workers along with it.

Mr. Chairman, we have appreciated this opportunity to present the UAW's views to this committee.

[The prepared statement follows:]

STATEMENT OF
OWEN BIEBER, PRESIDENT
INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE
AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)
before the
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES

on

EXTENSION OF FAST TRACK TRADE AGREEMENT
IMPLEMENTING AUTHORITY

April 11, 1991

Mr. Chairman, my name is Owen Bieber, President of the UAW. I appear here today on behalf of the 1.4 million active and retired UAW members in all parts of this country.

We appreciate the opportunity to share with you and other members of the Committee the views of our Union on President Bush's request for an extension of fast track procedures for implementing legislation related to trade agreements entered into over the next two years. The UAW very strongly opposes the extension and supports the adoption of a motion of disapproval.

As you are well aware, Mr. Chairman, the President's request raises both procedural and substantive issues and is intended to cover at least two trade agreements. Let me make clear at the outset that the UAW opposes extending fast track procedures for agreements that may result from either the GATT negotiations or the proposed U.S.-Mexico negotiations. In neither case has the Administration presented convincing evidence that an extension of fast track authority would yield substantial benefits to American workers.

With respect to the GATT negotiations, the Omnibus Trade and Competitiveness Act of 1988 provided as much fast track authority as the negotiators needed. A completion date for the Uruguay Round was set for December 1990. In areas of negotiation of concern to UAW members, such as worker rights, the import fee for adjustment assistance, and strengthening international rules on unfair trading practices, the Round has been a serious disappointment.

In the negotiations affecting trade in manufactured goods, the best we could hope for is that the status quo in the U.S., which has produced massive trade deficits in the past decade, is retained. We are very concerned that further trade-offs in this area could be made to achieve agreements in the negotiations on services, investment and agriculture. We do not expect GATT coverage of these new areas to stimulate U.S. employment, but we recognize that U.S.-based multinational corporations could expand their foreign operations with such coverage.

We propose that the Congress use the opportunity provided by the expiring fast track authority to re-assess the Uruguay Round's progress toward meeting the goals set for the Administration in those talks in the 1988 trade legislation. It may be appropriate for the U.S., at this time, to set new or different goals for the GATT; a simple extension of fast track authority should not be granted.

For the UAW, Mr. Chairman, the issues raised by the Administration's proposed free trade negotiations with Mexico are much more disturbing than the GATT. The economic and social consequences of proceeding toward the rapid conclusion of a narrow trade and investment agreement, as envisioned by the Bush Administration, have been subject to only limited analysis. The assumptions used in conducting the available analyses of a free trade agreement are far too restrictive to produce reasonable estimates of the impact of a U.S.-Mexico agreement on the U.S. economy and American workers. To give the Administration fast track authority for these negotiations would be a serious mistake.

The single most important event in U.S.-Mexico economic relations in the past decade is the Mexican debt crisis that began in 1982. Prior to that event, Mexico had experienced quite rapid economic growth and development for many years. Wage rates relative to the U.S. were far higher than in other countries at similar levels of development. The Mexican government showed little interest in increased integration between the two economies. Despite barriers to U.S. goods, exports of capital goods to Mexico were substantial and the U.S. ran trade surpluses in manufactured goods.

Since the debt crisis, though, the situation has changed dramatically. Mexican workers have seen the buying power of their wages and their standard of living decline sharply as the government adopted austerity measures to generate dollars to pay debt obligations. Large trade surpluses were required to produce these needed funds and low cost manufactured exports were one important way to accomplish this.

The austerity affected American workers as well as Mexicans. First priority for dollars held in Mexico was to pay banks, not U.S. manufacturers; U.S. exports sank as did employment stimulated by them. The U.S. surplus in manufactured goods trade with Mexico turned into a deficit.

Mexican wages no longer led those in other developing countries. In fact, valued in dollars, Mexican workers' wages fell below rates in Korea, Taiwan, Singapore and elsewhere. As the worldwide recession depressed prices and demand for Mexico's oil, its need to develop other exports increased.

At the same time, concern in the U.S. regarding de-industrialization and "hollowing out" by domestic manufacturers became widespread. Living standards and real wages were falling for millions of workers, especially those without a college education. Policies of deregulation, weakening of the social safety net and high interest rates discouraged domestic investment and gave little support to displaced workers. Manufacturing jobs disappeared and the number of low wage service industry jobs grew.

Since 1986, the Mexican government has been attempting to encourage exports of manufactured goods, particularly to the U.S., by maintaining low wages for its workers and reducing its restrictions on imports and foreign ownership of capital in Mexico. The U.S. has followed a similar path of low wages and foreign investment to promote "international competitiveness". Workers in both countries have borne the costs of these strategies.

I have described the period before and after the Mexican debt crisis to show how things have changed in the past decade for workers in both countries. It is our view, Mr. Chairman, that the impact of a free trade agreement between the U.S. and Mexico would reinforce each country's low wage economic strategy. We find that the analyses of the International Trade Commission and other studies fail to reflect the changes I have described and, therefore, inaccurately estimate developments in the future.

Let me mention just one of the failures of existing studies. There is an assumption in the models that investment by U.S. firms in Mexico in response to a free trade agreement will not shift existing production from the U.S. to Mexico, that only the allocation of new investment will be affected. Our experience with Maquiladora investment and production (and our own common sense) has taught us that this is ridiculous. There are now approximately 75,000 workers in Mexico performing auto-related work for U.S. companies formerly done here. We have no doubt that assured access to the U.S. market for production in Mexico would greatly increase that number.

Yet, even with this unbelievable assumption, the models predict significant worker dislocation in the U.S., a small adverse impact on real wages for nearly three-fourths of American workers (in the ITC study) and a very small net benefit for the U.S. economy. You can imagine, Mr. Chairman, what the impact would be if only this one assumption were altered to better reflect reality. There are other assumptions, concerning such variables as Mexican labor force growth and immigration, that could also be challenged.

If the Congress does not withhold fast track authority for the legislation implementing a U.S.-Mexico agreement as described by this Administration, it will have lost the opportunity to study and discuss alternative futures for the U.S., for Mexico and for the relationship between us. It may be that increased economic interaction structured differently from a free trade agreement can increase the incomes of workers in both countries, but we will not know that unless further study is undertaken.

I would caution those who may think that it is possible to revise important provisions of a U.S.-Mexico free trade agreement after it is negotiated. This is based on my personal experience with the Select Automotive Panel established under the U.S.-Canada "free trade agreement". The rule of origin applied to

automotive products eligible for the agreement's tariff benefits should have been 60 percent North American value, which was supported by the vast majority of interested parties in both countries. Unfortunately, the Canadian government rejected this figure and insisted on 50 percent. The select panel was to advise the governments of its position on this and other matters; it was understood by many that the Canadian government would change its position if the panel endorsed the 60 percent figure. It took longer than expected, but the panel overwhelmingly endorsed the higher rule of origin last year. Even so, the Canadian government maintained its position and nothing has changed. We are still stuck with an inadequate rule of origin in the U.S.-Canada agreement.

Mr. Chairman, I have focused my comments regarding U.S.-Mexico trade on concerns with which I have direct experience. There are others, though, that require further investigation before the U.S. can determine what type of economic interaction with Mexico would benefit both countries. The environmental impact of maquiladora production on the border area must be addressed. Legal commitments in place have failed to achieve adequate results in protecting the environment. More broadly, enforcement of environmental standards throughout Mexico is a concern shared by workers in both nations as well as environmentalists. The Administration has given insufficient attention to the impact on American farmers and farmworkers of barrier-free trade with Mexico.

Mr. Chairman, it will take a considerable amount of time to understand the economic and social impact of the existing relationship between the U.S. and Mexico, as dramatic changes in economic and development policies have occurred in recent years. To assess the impact of changes in that relationship, such as through the negotiation of a free trade agreement, will take even longer. While this important work goes on, we should not remain inactive. We can make workers in both countries better off by undertaking the following initiatives:

- debt relief beyond the Brady Plan that forces U.S., foreign and multilateral banks to take some of the burden of Mexico's foreign debt off the backs of industrial workers here and in Mexico;

- cooperative efforts to clean up the pollution in the border area and assure that further economic development is ecologically sound;

- acceptance by U.S. companies operating maquiladoras to abide by all applicable U.S. and Mexican laws, to raise the pay and living conditions of their workers and to recognize the rights of their workers to unionization, collective bargaining and a safe and healthy workplace;

- public and private provision of technical assistance to Mexican officials responsible for enforcement of labor, workplace and environmental standards;

- foreign assistance from the U.S. government to Mexico directed at increasing production for the home market and raising incomes so that the market grows.

This less than exhaustive list is meant only to show that there are meaningful actions that can be taken now that are quite certain to produce benefits for workers. The UAW supports such actions because we believe that our members' well-being is improved when the lives of Mexican workers are improved.

Mr. Chairman, we believe that extending fast track authority for implementing legislation related to the GATT negotiations and the proposed U.S.-Mexico free trade negotiations would not result in gains for American workers. In fact, we believe that the Congress must take a much more active role in determining the economic future of the nation if we are to step off the treadmill of economic development based on low wages and declining living standards for working people.

Thank you, Mr. Chairman, for providing this opportunity to appear before the Committee and present the views of the UAW. I would be pleased to answer any questions you or the members of the Committee may have.

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Chairman ROSTENKOWSKI. Thank you gentlemen.

Gentlemen, there really appears to be a basic factual disagreement between organized labor and the administration and various academic studies about the potential impact of a free-trade agreement with Mexico on American jobs.

The AFL–CIO expects a further loss of United States jobs to lower waged labor in Mexico. Others argue that the assembly operations already set up by United States firms in Mexico have created and retained jobs in the United States to support these facilities, and that a free-trade agreement will have an overall favorable job impact as exports increase.

I have heard this argument quite frequently, that the assembly operations and the enhancement of Mexican employment will also increase ours.

How do both of you account for this total disagreement on the experience to date as well as on the prediction of a future impact? What is your observation as to what truly will happen with respect to employment in the United States?

Mr. BIEBER. First of all, let me approach that from what I see in the auto industry. No. 1, if you will look at the record, the point that I just made in relationship to the maquiladora plants. It has not been an increase of jobs here, it has been an increase of jobs going to Mexico.

I would also point out, Mr. Chairman, that in the most recent 2 years, additional capacity for cars sold in the United States has been increased in Mexico by Ford Motor Co., as one example.

As you may know, the Mercury Tracer automobile that is sold here in the United States is produced exclusively in Mexico. Not a single one of those cars are sold in Mexico, all exported to the United States market.

They have increased the capacity for building Escorts in Mexico. Prior to 1991 models, all the Escorts were built in the United States. One of the plants building those Escorts was closed down, another product put in it, but all of that capacity was then built up in Mexico.

The other thing that I see happening immediately is that if we have open, free trade, you will see a fast movement on the part of the Japanese automobile manufacturers into Mexico. They have the capital. They will build greenfield projects in Mexico, and they will export those products to the United States.

And I might point out that will include, in my opinion, the pickup trucks which today are a big piece of business for our domestics, and I would hope that everybody can recognize that we need some help. I am sure most of you saw the Wall Street Journal headline today. That says, big three car output to sink to a 33-year low in the second quarter of this year.

So if we have free trade with Mexico, the Japanese move the assembly plants in there, that means that the chicken tax, the 25 percent tariff, will not apply to pickup trucks built in Mexico, and in they come into the United States.

Mr. Chairman, in that plant where the Tracer car is produced, the wages in that plant today are $6 a day—$6 a day. They make a point that they got a 20-percent increase in the last set of negotiations. That is correct. It was $5 a day. They got a 20-percent in-

crease, which is $6 a day now, and in the process, during the period between $5 and $6, the peso was decreased in value three times. So I would submit to you that the workers' income today at $6 is less than it was at $5.

You have to understand that if you go down and look at the maquiladora plants, and if you haven't seen them, you ought to see them, you are not going to see workers in Mexico working by hand producing products that compete with us. You will see the latest technology, the latest piece of equipment—some of it later and newer than what we have in our domestic plants here that are in those plants in Mexico. And we must compete with those workers who are making $4.50 a day in the maquiladora plants.

So, I see total disaster here if we enter into this agreement.

Chairman ROSTENKOWSKI. Mr. Gibbons. Mr. Rangel. Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman.

Thank you Mr. Bieber and Mr. Donahue for your testimony. As you know, I am sympathetic to the concerns that you raise about this Mexico Free-Trade Agreement.

Mr. Chairman, if I might, I would like to elaborate a bit on the response that our witnesses made to your question as to whether maquiladora plants create jobs in the United States or not. I think the answer is both yes and no.

It is yes in the sense that the maquiladora plants are twin plants, that most of them have a United States-based factory as well as a factory in Mexico. In those United States-based plants, there is design work that goes on, there is engineering work that goes on, there may be the manufacture of some components, so that to the extent that there are additional products made in the Mexico plants, it does generate additional professional-type work in the twin plants here in the United States.

But at the same time, the total volume of employment, particularly for manufacturing workers, typically goes down. I have had entreaties by various corporate executives to support the United States-Mexico Free-Trade Agreement because of the argument about these maquiladora plants.

I just ask them a simple question. I say, OK, you have located in Toledo, OH, one particular corporation, the Dana Corp. You made auto parts, now you are operating in Mexico. What was your employment in 1960, 1970, 1980, and 1990? Just tell me. And of course it turns out that their employment during that period of time has gone down from 3,500 to about 1,500 of American workers.

It may well be true that some additional jobs were created in Toledo for scientists and designers and engineers, but they certainly were not created for blue-collar manufacturing workers.

So, I think we ought to be very careful when anybody touts the job-creating potential of the maquiladora plants to ask what kinds of jobs they are and what the net overall effect will be.

I think it was Mr. Bieber who made an excellent point that the maquiladora plant is a twin-plant operation. There are supposed to be plants in the United States. But if there is a free-trade agreement, there will not be any requirement for twin plants, and as Mr. Bieber pointed out with the example of the Tracers produced by the Ford Motor Co., the entire automobile can be produced in Mexico with no United States input whatsoever.

Mr. Bieber also mentioned another important fact we need to keep in mind. Traditionally, we have not been too worried about Third World countries developing because we have said, well, their wages are low, yes, but they don't have access to capital and sophisticated equipment and it will take them a long time to get that access, and by that time their wages will be higher.

The new reality that we face, that our workers face in America, is the marriage of foreign capital with low wages in Third World countries. If there is a free-trade agreement with Mexico, there will be no shortage of capital in Mexico. It won't be Mexican capital, it will be United States capital, Japanese capital, Taiwanese capital, French, German, and so forth.

The Mexicans will have the capacity to bring in brandnew Greenfield state-of-the-art plants and put to work in them workers earning 70 cents an hour, and that is formidable competition.

Just yesterday, members of the Trade Subcommittee met with the trade minister of Taiwan, and he is most eager, looks forward to having a United States-Mexico Free-Trade Agreement because of proposed Taiwanese investment in Mexico to get access to the United States market.

Finally, Mr. Bieber, I appreciated your comments about wage growth in Mexico. I spent 5 days last week in Mexico, including along the border in Matamoros, Mexico. I was told there that the several dozen maquiladora plants in Matamoros have the strongest unions in any city along the entire United States-Mexico border.

All the bargaining is done on a joint basis—one employer group, one union group—so the same increase that is negotiated for one plant is negotiated for every plant in Mexico, in Matamoros, and the standard procedure is to negotiate an increase equal to the increase in the cost of living, or the devaluation of the peso, as you mentioned.

So, there is no net increase in the welfare of the workers, in the real wages of the workers, in Matamoros from year to year. I suspect that goes on, if it is that good in other parts of Mexico, and that is the kind of competition that our American manufacturing workers have to face.

As I have said many times, I view this possible FTA as a threat to the American middle-class manufacturing worker. I am sympathetic to what has happened in Mexico in the last several years. I think that the Mexicans have made great strides in terms of economic policy, but our job in the Congress is to represent Americans.

I fail to see how a Mexico FTA can help American manufacturing workers.

That is a statement, not a question, but I do thank you for your testimony.

Chairman ROSTENKOWSKI. Mr. Anthony.

Mr. ANTHONY. Thank you, Mr. Chairman.

As you are aware, I have publicly stated, and I have sent a letter to the President and Ambassador Hills stating that I would vote for fast track, but that I have many serious reservations.

Mr. Donahue made a comment that struck me, and that is at the GATT negotiations, the agricultural foreign subsidies is one of the key components. Unfortunately in my district, 23 counties, south

Arkansas, it is an agricultural industry and it is what drives our economy. Automobiles and trucks are not being made there. So I am voting my constituents' interest when it comes to trying to go for a GATT extension, because my constituents are benefited if foreign subsidies are phased out over a period of time and we can have a fair opportunity to compete in an international fair market.

But at the same time, Mr. Donahue, I do not want foreign agricultural subsidies reduced to the detriment of the automobile worker. I want them both to win. And there are some of your members in my State, because there are some component parts that are made in the State.

How can we achieve both goals? How can I represent my constituents who raise rice—we happen to be the number one rice producer in the United States, and as you well know, we can't get that rice into Japan.

I would like to see something negotiated out with a 2-year extension so that rice could at least go into Japan. Chances that it would be an Arkansas rice is pretty slight. It would probably be short-grain rice coming out of California, but at least we would have the opportunity to switch from long to short if we wanted to or if the overall markets increased, I think it would help us.

We rank in the top 10 in cotton, soybeans, and wheat. We have a fast growing agriculture market, and with the health consciousness of the citizenry around, it looks like it is a growth industry. So here I want to help my core constituents by having foreign subsidies removed so that they can compete fairly, but at the same time I don't want to do it to the detriment to your workers.

How can we achieve both?

Mr. DONAHUE. I think you are going to have to wait, Mr. Anthony, to see what reality there is in the efforts of the trade negotiators to give away other things in the GATT negotiations for the sake of achieving that reduction of foreign subsidies. There is no indication yet that those nations are prepared to reduce either their export or their basic domestic support subsidies.

Mr. ANTHONY. If you would yield just at that point.

Mr. DONAHUE. Yes sir.

Mr. ANTHONY. Several weeks ago, members of the Trade Subcommittee had an opportunity to meet with about 30 representatives of the countries that are subject to the GATT. It was off the record. It was a private breakfast that Chairman Gibbons hosted, and we were able to ask some very straightforward pointed questions, and they were able to give some very forthright responses.

I reported back to some of my constituent groups that it appeared to me there was some light at the end of the tunnel. They now appear to be ready to make some concessions because I think, in the long range, they view it as better for them to have an agreement rather than to have no agreement whatsoever.

So, although I have been pretty pessimistic up until that breakfast, I must admit I came out of it a little more optimistic.

Mr. DONAHUE. I would share your pessimism more than your optimism. You well know the GATT negotiations fell apart over the refusal of the European Community and other nations to even negotiate sensibly on the agricultural subsidization issues.

Where we are now is that they have said, well, we will negotiate about them. That is a reason for extending fast track for another 2 years, so we can see what they want to say to us. I don't have very much faith in what they are going to say on the agricultural subsidy questions.

Those nations face a very difficult political question about their ability to survive as administrations in power and to reduce subsidization of agriculture, to allow in the foreign imports, the United States-grown rice in Japan and wheat and other products in Europe.

But it may be worth a continuance of those negotiations just to see what they are going to put on the table and see if any progress can be made. I think the trade negotiators are called upon to accomplish the kind of balancing act you are talking about, not to sacrifice the interests of working people, or manufacturing workers or clerical workers or any other kind of employed person for the interests of agriculture.

Our concern in the GATT negotiations is that they may be ready to do that, that they may be ready to sacrifice some of the interests of manufacturing workers for the agricultural growth.

Mr. ANTHONY. I would be opposed to that, and if the final agreement showed that that in fact was what happened, I could tell you that I would not be willing to support that.

My time has expired, but I did want you to recognize the conflict that some members of this committee have in representing their constituents versus the constituency that you personally are speaking for and representing.

What I would like to do is stay in contact with you and your representatives if, in fact, fast track goes forward to help you address those concerns and to make sure that one sector does not benefit to the detriment of another. I want all sectors to benefit and none to the grievance of another.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Andrews.

Mr. ANDREWS. I appreciate very much hearing your testimony. Mr. Donahue, I assume from reading your testimony and listening to your responses that you oppose the free-trade agreement under any circumstance?

Mr. DONAHUE. I oppose it, I said, as it is currently framed, Mr. Andrews, as a negotiation to achieve what is called a free-trade agreement on the narrowest basis—tariff/nontariff barriers, intellectual property, and investment. Without looking at other issues, yes sir, I think that is the wrong way to go.

I think that the example is the example of the European Community, and it is an all-encompassing negotiation.

Mr. ANDREWS. Let me ask you to give some thought to this in a more positive way. I appreciate labor's position relative to illegal immigrants that have come into this country across the Rio Grande, into areas like the valley of Texas, and certainly cities like Houston. This has taken American jobs from American workers. We all agree upon that.

Yet, it seems to me that moving ahead with this kind of negotiation is one important way, and an important opportunity, to try to raise that standard of living in Mexico; to rebuild some of the in-

frastructure in Mexico which in some places, as you state in your testimony, is almost nonexistent; to try to stem that immigration into our country, that has hurt our American jobs.

I guess my question is, if we don't do this, if we don't take this opportunity, then what do we do about the terrible and deplorable difference in our two economies and the problems that we do have—environmental problems, job-related problems, health and safety problems? These have not really been touched on today, but they are very real in the valley and in northern Mexico.

But if we don't take this opportunity to work with the leadership in Mexico toward this agreement, give me two or three things that you think we ought to do, in a positive way, to try to change this situation.

Mr. DONAHUE. All right. The maquiladoras, the historic agreement in 1965 was one generated by a Democratic President who said we will help both nations, we will help the valley on the United States side, we will help the Mexican workers by creating twin plants within 15 miles of the border, and we will improve conditions in that belt.

We are now 25, 26 years into that experiment. It has obviously failed to improve conditions on the Mexican side. It seems to me what that proves to us is that when it comes to the development of another nation, we shouldn't put our faith in the investments of U.S.-based or other-nation-based multinational corporations, because they aren't interested in infrastructure, they aren't interested in anything but employment possibilities and wage differentials in those two countries.

The maquiladoras have been there for 25 years, and they have failed to improve the conditions in Mexico.

Mr. ANDREWS. I am not asking you to criticize the maquiladora program. I have read your testimony.

Here is the question, Mr. Donahue. If you could enumerate for the committee, give us a little guidance, enumerate one, two, three specific things. If we don't progress on this trade negotiation, what should we do?

Mr. DONAHUE. We should work with the Mexicans on the problem of Mexican capital flight. We should develop a foreign aid program in this country, the historic way of everybody in the nation sharing the price of developmental assistance given to poorer nations, and we shouldn't allow the current effort to privatize foreign aid, which is what the free-trade agreement would do.

We should then embark upon a negotiation——

Mr. ANDREWS. Well, you aren't suggesting that we give foreign aid to Mexico?

Mr. DONAHUE. I am indeed, sir. We should give developmental assistance to Mexico. We should help to build the infrastructure which will make it possible for Mexico to develop its own industries, its natural resources, the talents of its people, and to get them out of the terrible poverty in which they now live. Absolutely, we should help them to do that.

We should then engage in the broadest negotiation with a neighbor nation to see how we can grow together. How do you take two giant economies and help them to grow together? How do you deal with the question of a 10 to 1 wage differential without simply pre-

tending it is not there and saying we will just put in new investment. Jobs will flow downhill to the lowest level of cost for them.

Those three things we could do—three rather ambitious things I think we could more profitably spend our time on.

Mr. ANDREWS. Thank you.

Mr. BIEBER. Mr. Chairman, if I might just add, Mr. Congressman, I would appreciate it if you would look at pages 6 and 7 of my submitted testimony. I have listed five items there that you might be interested in.

Mr. ANDREWS. I would be glad to. Thank you.

Mr. MOODY [presiding]. Mr. Dorgan.

Mr. DORGAN. Thank you, Mr. Chairman.

You will be followed today by the Business Roundtable, the National Association of Manufacturers, the Chamber of Commerce, and the Emergency Committee for American Trade. They will say well, you are just a bunch of folks who are only about preserving some jobs in this country we are going to lose anyway, and you are looking through the wrong end of the bottle here. What you ought to do is be concerned about broader economic opportunity and increasing the economic growth in both countries. You are basic, classic protectionists.

That is what they are going to say. How do you respond to that?

Mr. DONAHUE. I think they will also say, Mr. Dorgan, that yes, there will be perhaps some short-term damage to unskilled workers or semiskilled workers, but we will get beyond that.

I would ask you to find one among them who will say to you that there is some short-term damage in this for my company, but I am for it anyway because we really want to help the Nation and help these two nations develop. That is the businessman I want to meet, who is pro-free-trade agreement, the one who says we are going to take some short-term losses here. We are going to suffer, but we act out of honorable motives.

They will say to you that we need to address those issues. I agree absolutely. We need to address the macroeconomic issues with Mexico. We need to talk through all of those issues. The free-trade agreement is not a way to do it. This is not about shipping products back and forth across the border, manufactured in one country or the other. This is about allowing American companies, and Japanese, European Community, and Taiwan corporations to invest in Mexico and sell in the United States market. That is what this treaty is about.

And that is why our American corporations favor it.

Mr. DORGAN. I was paraphrasing what the opponents of your testimony would characterize it as, and let me just say that one of my concerns for the last 10 years has been that there has been this chant about free trade. I have just not met anybody who does not think free trade is a pretty good idea, as long as it is free and fair and negotiated in a manner that demonstrates that this country has certain strategic economic vital interests that it must be concerned about and that must be considered in the negotiations.

For 10 years, there has been this negotiating attitude that we do not have any interests. Our interest is only in free trade and come what will in this country's future, with respect to basic industries, we do not care. Whatever happens will happen.

That is the most cockeyed set of objectives and negotiating strategy that I have ever seen. It does not make any sense at all. When we negotiate with the Japanese, we negotiate with a country that has a managed trade economy. When we negotiate with the Europeans, we negotiate with a set of countries that have mixed economies. They have completely different strategies.

And yet we have a coach with a jersey on that gives the same speech in every locker room against every team. It is goofy. It makes no sense at all.

The only question that I raise is not whether there should be free trade. Of course there should be free trade, and I am for it. But should not our negotiators start wearing uniforms that say when we negotiate trade agreements around the world we pay attention to some of the basic economic interests of this country's future? Because I do not think that is the case these days.

The people who are going to come next in this panel, they are going to talk about the need for agreements in free trade. I am not going to dispute that because I think we ought to have those agreements and I think we ought to negotiate aggressively to pry open markets, reduce barriers, and expand opportunity. That is precisely what we ought to be doing.

But I think to do that with blinders on and to give the same speech against every opponent makes no sense at all. I would like to see some basic spark of interest by those who are supposed to represent the American interests in the trade forums to say we decide what represents our sphere of influence in this country's future and what we are going to fight for and what we are going to work for.

If I see that, then I will say this is the right track, and I do not care whether it is a fast track or a slow track. It is the right track, and by God I am going to support it. But until I see that, I am not convinced the people who say they represent us are representing us in trade negotiations that represent our real, long-term economic interests.

Thank you very much for your testimony.

Mr. BIEBER. Mr. Chairman, might I just make a point? I agree totally with you, Mr. Congressman, and I would only make this observation.

That is my concern about the fast-track approach. I have sat at bargaining tables now for more years than I really want to remember, 42 to be exact. And I would submit to you the approach of fast track really puts you at a disadvantage if you sit down and you analyze what collective-bargaining is all about.

I have heard some people say, well, the fast-track approach is somewhat akin to my negotiations with General Motors, as an example. I would suggest to you that nothing could be further from the truth.

To give you a comparison, that would mean that Mr. Stempel and myself would sit down and we would agree on a total contract and then we would carry it back and say to the membership of my union, you have to accept it all or vote it down. I would suggest to you we would have an ongoing strike that would never end.

And neither side really would want to go to the bargaining table with their hands tied behind their backs, and that is what fast

track does. I have heard a great deal this morning about commitments that we will put these things on the table. That is all fine and dandy, and I accept all of that.

Forty-two years now I have sat at bargaining tables. I carry in a lot of proposals and the company carries in a lot of proposals. Attach any number to it that you want to, 100 on one side, 50 on the other; 200 on one side and 100 on the other. But when the final analysis comes down, there is a far lesser number of those things that get the attention.

All I am trying to point out is that even with all the commitments in the world, this system does not lead us to taking care of the very problems that we have to. I would have to say to those who are going to follow us, I would hope that they do not look just at the shortsighted and the quick answer. That is part of our problem out here in the marketplace today. We have traded far too many $10 and $15 an hour jobs for $4 an hour jobs. We have a recession because people cannot buy products based upon $5 an hour jobs.

Mr. DORGAN. Mr. Chairman, just one 30-second observation.

The latest trophy on the negotiators' mantle was the Japanese beef agreement a couple of years ago. When I read about it in the newspapers, I thought God, they have almost won the Olympics here. They trumpeted this Japanese beef agreement, the end of which leaves the Japanese with only a 50-percent tariff on beef coming into Japan.

You would have thought they had won the Olympics, and the fact is it would have been a standard of failure in any other set of negotiations. My point is that we have got to expect more and produce more in agreements around the country that really do represent free trade and fair trade and open markets.

Mr. BIEBER. That was a success compared to the MOSS negotiations on auto parts, because we negotiated there and the only thing that we negotiated over for the period of time was how many booths we were going to get, American manufacturers, at the expo in Tokyo. They could have given us the whole show and we would have got as much as we did out of the negotiations.

At the end of the negotiations we got an agreement which said we are going to keep a better record. The point is, we get better record keeping, we get booths at the expo, and we cannot get one piece of auto parts in the Japanese market.

Mr. MOODY. Mr. Levin will inquire.

Mr. LEVIN. Thank you and welcome. As someone who worked about 5 years on the MOSS auto parts, I am afraid you are right.

Let me follow up the question from Chairman Rostenkowski about these studies. I want to refer to one that relates to the auto industry. There is a tendency, I think, in trade and economic issues, to fight with labels and your position, both of yours, has been labeled as special interest.

I cannot believe in Japan or France anyone would ever dream of calling the auto sector a special interest sector. I would never dream of it. The French really are not doing that in terms of Europe 1992.

So let me ask you, if I might, about one of the studies by James Womack. I just want to read a couple of lines from what he said.

He is for a free-trade agreement, but you also need to look, I think, at some of his statements. He says a large integrated motor vehicle manufacturing industry would arise in northern Mexico near the existing engine and assembly plants that stretch from west to east.

He says regionalization—and he is talking about this integrated industry—that regionalization can be accomplished without threat to United States and Canadian jobs and trade balances by transferring the production of entry-level products for the United States and Canadian markets from Japan and East Asia to Mexico in the 1990's. Then he goes on to say that included in what would be transferred to Mexico would be light truck production, in substantial measure.

So give us some idea, your thoughts on what would possibly happen through this kind of regionalization that would affect smaller cars and light trucks?

Mr. BIEBER. No. 1, it is what I said earlier, what I think is going to happen. By the way, I do not buy this idea that the only cars that will end up in Mexico, being produced in Mexico, are the small cars. I think there is good reason for saying that.

Ram Chargers are produced in Mexico today. That is not a small car. It is a pretty good sized truck.

Mr. LEVIN. Light truck production is somewhat substantial, right? What is it, more or less? I think it is 1½ million units now, of light trucks in the United States?

Mr. BIEBER. Yes, it is one of the big pieces we have there. The headlines would be probably within the last 66 years if it were not that we have a pretty good hold of the light truck pieces.

What I said before is exactly what I believe is going to happen. No. 1, the Japanese will relocate plants in Mexico. They have got the capital. They will do the greenfield project. You have to understand that if that happens, the domestics will obviously increase their production in Mexico. I can hear the argument now, the competitiveness, $6 a day versus $15 and something an hour, to assemble a car or a truck.

When you increase the assembly there, up until now you have not been able to get economy of scale in the assembly plants. You get that very quickly with a free-trade agreement. But that does not mean that you just assemble more cars there. In today's real world, stamping is no longer done on the other side of the border and shipped into Mexico. You will build new facilities for stamping.

So it is not just spark plugs, et cetera, that go. It is the assembly, it is the stamping of the outer parts of that body. All of those jobs are going to flow from our side of the border.

And I do not think it takes a genius to figure this out, if you look at what happened in the maquiladora situation. We were sold, first of all, on the basis that this means a sister plant on the Mexican side of the Rio Grande, a sister plant from our plants here. We are going to build some new plants on both sides.

Well, we got the invisible plants with no one in them. When you question today, where is that sister plant, they will tell you it is up in Cleveland, OH. I told one person the other day, be careful now, you are probably going to identify the sister plant as one of those plants that has been bulldozed up in Cleveland, OH, because a lot of those plants are not in existence any more.

There is just no question that the jobs and the assembly of cars and trucks are going to shift to the other side of the border. And let me say this, this argument that fast track—that is my problem, because there are so many things that need to be done. You have to build a domestic market in Mexico, otherwise you are just asking for greater burden on this market.

When you look at what the maquiladoras have done, they have driven down the wages in the interior plants in Mexico. The wages in the assembly plants in Mexico have gone down as a result of the maquiladoras. It has resulted in strikes down there, et cetera. Aside from what they tell you in the headlines, the strikes came because people's seniority was sold off, and new wage levels put into those assembly plants which were lower than the wages before because they were out of balance with the maquiladoras.

So nobody can sell me this idea, by transferring more into Mexico you are going to raise the wage standards there. It is not going to happen, let alone all of the problems with lack of protections in those plants for workers, workers' rights, the terrible environmental situation that has gone on. It is an open invitation to transfer jobs and operations to that side. And that is exactly what is going to happen.

Mr. LEVIN. Thank you.

Mr. MOODY. Thank you. I will be brief myself.

I do not know if you heard my comments with Dick Gephardt, but I pointed out that the argument that there is no problem competing with a nation with lower wage rates, as long as there were lower productivity rates, falls apart if in fact the workers in that lower wage country do not have a right to organize to bring their wages up to productivity. If the ratio of wages to productivity is way off from one country to another, that whole argument falls apart.

As I think you probably know, there are virtually no independent unions in the maquiladora strip from San Diego to Brownsville.

As Don Pease pointed out, it is not unionization as we think of it. The manufacturers' associations are totally unified in ways that would violate our antitrust laws. They sit down and negotiate with that one union there, and that has barely kept up with inflation. There have been no wage gains tied to increased productivity to the Mexican worker. I do not know if you have looked at that aspect of it.

Let me ask you, what do you say about the argument that if the plants do not go to Mexico, that they will go to Taiwan or somewhere else? That somehow, by holding them in this hemisphere, there will be greater U.S. content? There will be some jobs left because those automobile assembly or electronic assembly plants have some U.S. content. If they go to Asia, there will not be any United States content.

Do you want to respond to that?

Mr. BIEBER. My answer to that is this, that I do not believe that all of the plants, even in the maquiladoras, that are in Mexico would have gone to Singapore or someplace else. I just do not buy that.

But I can tell you this, that I do not agree at all with that argument in relationship with assembly. That is what you are going to

see a great increase in, if you move into a fast-track agreement, straight free trade across the borders, you are going to see movement of assembly into Mexico and an increase of the assembly operations in Mexico.

Now, you do not have the same level today of technology in the assembly plants as you have in the maquiladora plants, simply because you have not had economy of scale. But you increase the output in those plants to full productivity, you build 250,000 cars down there, you will see very quickly new equipment going into those plants. That is why the invitation to the Japanese will be that much greater because in addition to that, they can start with a greenfield project and they have the capital available to do it.

There will be an exodus, a considerable exodus of jobs here. I know, I have heard that same argument here, and I have heard the same argument, Tom and I have, in Mexico. You have to understand, we have been working with the trade union group in Mexico for several years now, trying to set up discussions between ourselves. We heard the same message delivered to us in Mexico. If we do not do it, somebody else is going to do it.

I guess the final question I have is, if that is what motivates us, what about the good old U.S.A. and the good old American worker and the citizenry of this country? Who is about to worry about their future? I think it is high time that we do.

Mr. MOODY. There seems to be an element missing, the old Henry Ford philosophy that we have to pay the workers high enough wages so they can buy these cars they are producing. What this free-trade agreement might produce is workers who cannot buy anything they are producing.

Mr. DONAHUE. Mr. Moody, if I might just comment on that subject. The argument about if they go to Asia, there may be no United States content, I say to you they may go to Mexico and there will be no United States content either. We have no guarantees of that. You have that guarantee in the current maquiladora operation—that it is going to be vitiated by a free-trade agreement.

Mr. MOODY. What is the U.S. content of the Mercury? Do either of you know? The Mercury that is being produced in Mexico?

Mr. BIEBER. It is very, very little. When you assemble, as well as put in the equipment, first of all the engines are not U.S. made. There is very, very little U.S. content in the Mercury Tracer car.

Mr. MOODY. Mr. Donahue, I am sorry to interrupt you, but you were making this very point.

Mr. DONAHUE. I just want to make one other point, with reference to the organization of the workers in those maquiladoras. The workers in Matamoros are organized. The American companies and other nationally owned companies in the maquiladora have resisted unionization right across the border area. They have fired strikers. There is story after story in the maquiladora of the resistance of these corporations to organization.

The Twin Plant News, which is the voice of the association of the American companies in the maquiladora, ran an editorial last month or the month before, condemning the leadership of the CTM in Matamoros for having raised wages to the princely sum of, I think, $1.25 an hour and said that something is going to have to be

done. That leadership is going to have to be replaced. They have raised the wages too high in the Matamoros plants.

That is the attitude of the American companies in the maquiladora, sir.

Mr. MOODY. We were told, when we visited Matamoros—you heard me mention that we were down there—that that is the only town along the maquiladora strip that has a 40-hour workweek. Everybody else is on a 48-hour workweek. At least the union does that. But they have not been able to get wages up above—there is no increase in wages due to productivity increases according to what we heard.

Mr. DONAHUE. The results of the last negotiation were an increase, as I understand it, negotiated between the association in Matamoros and the CTM group there called for an increase of 18 percent in basic wages at least, which brought the rate up to—my recollection is it is in the neighborhood of $1.25 or $1.50 an hour.

Mr. MOODY. As you pointed out, Mr. Donahue, that $1.25, whatever it might be today, could quickly be changed by another devaluation in the peso.

Mr. DONAHUE. And it has been over the 10 years. The dollar equivalent of the Mexican minimum wage has gone down from $1.26 to 59 cents an hour in the last 10 years. They can do it any time they want and gain a further advantage over U.S. producers in a free trade agreement.

Mr. MOODY. So the old Henry Ford argument that you ought to eventually be able to buy American products, is not necessarily going to be the case in Mexico if they do not get that wage up?

Mr. DONAHUE. It simply has not been true up until now.

Mr. MOODY. Thank you both very much.

Mr. BIEBER. It is very interesting that you mention Henry Ford, because it could be pointed out that 60-plus years ago, Henry Ford paid $5 a day in his plants in Detroit. Today, 60-plus years later, that same company is paying the equivalent of $6 a day in Mexico. I did not take the time to figure out what that equates to in real pennies, because that is what it would be if you compared that.

Thank you.

Mr. MOODY. Thank you both.

We have another panel that has been very patient. We have the Business Roundtable, Mr. Kay Whitmore, chairman of the working group on United States-Mexico Trade and Investment, also chair and chief executive officer of Eastman Kodak. We have John Hartley, representing NAM, who is also chairman and chief executive officer of Harris Corp. in Melbourne, FL. We have Jeanine Hettinga, director and member of the board of directors of the U.S. Chamber of Commerce and also CEO of Hettinga Equipment Co., Des Moines, IA. We have Joe Mullaney, vice chairman of the board, Gillette Co., Boston, MA., representing the Emergency Committee for American Trade.

Please join us.

STATEMENT OF KAY R. WHITMORE, CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, EASTMAN KODAK CO., AND CHAIRMAN OF THE BUSINESS ROUNDTABLE WORKING GROUP ON UNITED STATES-MEXICO TRADE AND INVESTMENT

Mr. WHITMORE. I am Kay Whitmore of Eastman-Kodak and part of the Business Roundtable. As was alluded to just now by the people who preceded us, we are all here in support of fast track and the various trade negotiations, both the GATT round and also the North American Trade Agreement that the administration is working on. We believe both of these should be supported.

In terms of fast track, we take the position that the only way to effectively negotiate trade agreements is with this type of facility. That is something that the Congress has agreed to, and we think it should be extended. We believe that without that agreement, without that extension of fast track, all of these negotiations will stop, including the Uruguay round which we think would be very unfortunate.

We do believe that both of these negotiations, both the Uruguay round for GATT and a North American agreement, are, in fact, job creators. That they will, in fact, create jobs in this country. That these things are in the economic interest of the United States. And I am sure, as each of these organizations, particularly the Roundtable, has said we would support agreements which in fact are in the economic interest of the United States and would not accept agreements which did not meet those tests. We take it as a given that as these negotiations are brought to a conclusion that they in fact will meet those requirements.

Let me spend most of my time on the Mexico arrangement. That seems to be the most controversial and the one which has attracted the most attention. Mexico is the third largest trading partner of the United States. In fact in the last 3 years our trade with Mexico has grown more rapidly than with any other single country. We think Mexico is a significant location. One which is currently very well led.

The President of Mexico is traveling this country right now and presenting himself very well. We have had the opportunity of meeting with the various ministerial people in Mexico and think they are very capable people; most of them United States-educated. Clearly they have a vision of Mexico in the future as an economically viable country participating in a modern way. We think that should be encouraged and that an opportunity is being presented to us to negotiate agreements which will in fact improve our ability to export products into Mexico—Mexico having been a very closed country historically.

That has improved in the last few years, and it is during that time that our exports have increased substantially. But we think there can be continued improvements, reductions of tariffs and other things. But we would also say that these improved relationships need to be locked in. They need to be built into a legal structure which makes them permanent; something that those of us in the business community who are allocating resources can rely on and plan on and invest on, and that that would be very positive.

We think there are a number of myths being passed around about the implications of these free-trade agreements with Mexico. We think they are, in fact, in majority, myths. Although I would say that like any set of agreements, the results will not be 100-percent positive. It would be nice if the world would allow us to do everything to our advantage and to other people's disadvantage. We think that is not the case.

So, undoubtedly there are some areas of disadvantage which need to be taken into account and need to build into plans and need to build into the negotiations. Such things as the transition times in specific industry sectors that may be impacted. Such things as escape clauses for changes where unanticipated events happen that might be negative to either companies or employees. We think those things must be taken into account.

But as we have gone around and surveyed, in our case the Business Roundtable members, we have found a great deal of information that indicates that the opportunity to export more aggressively to Mexico will be positive for United States industry and U.S. employment.

For example, Caterpillar Tractor, a major producer of equipment for infrastructure development. Mexico has tremendous needs for increased infrastructure; roads and hig ·vays, their railroads need to be upgraded. Caterpillar Tractor is enthused about this on the basis that they think they will be given preferential treatment as a company to export to Mexico versus some of their competitors which would come out of Japan. That would be positive for them and will create employment in Peoria, IL, for example.

General Electric is another company which is forecasting that its exports to Mexico are about $400 million now. That those exports will increase four times in the next 5 years if trade is opened where they can more actively export from the United States into Mexico. And those stories go on. In Kodak's case, the company I represent, clearly we see substantial increased opportunity to sell our products to the Mexicans as they improve their economic viability.

A number of issues have been raised, environment, job loss, workers' rights. We think in general all of those will be improved in fact with improved relationships with Mexico locked in by a trade agreement. The environment, for example. There are in Mexico, environmental laws that are roughly equivalent to the United States. The problem in Mexico is that the enforcement of those laws is not anywhere as strong as ours. That is probably typical of a country that is beginning to develop.

We have received direct commitments from the Mexican Government that all new jobs, all new factories in Mexico will be clean jobs. That they will enforce their laws prospectively for things that are going to happen in the future and that they will work on correcting problems they have had in the past. We think that enhanced trade between our two countries will in fact improve that, not make it worse.

I think the same is true of workers' rights. There is a recent article in the Wall Street Journal that has been widely read about a 13-year-old boy who was pulled out of school and put into work. Those I think are the realities of a poor country. That does not

make them right. That does not make them correct. What is the solution to those things? Improved economic viability in that country that raises those standards that makes it possible for people not to do that.

As I recall that specific story, that boy had twice as much education as his father. Hopefully he can give his son twice as much education as he had. So some of the solutions to these problems which are challenging and difficult for Mexico will only be solved by increased economic activity.

Just to conclude my little part, we strongly endorse fast-track authority as the only way to do these types of trade negotiations, and that this trade negotiation is positive. We believe this is in the best interest of the United States. It will in fact create jobs. It will in fact protect and create jobs in this country as we protect particularly our highest value-added jobs. We are, as the people before us would suggest, interested in giving people jobs that pay well, give them the income on which they can live well. Fast track is the way to help make us a part of the process for making those steps possible.

Thank you.

[The prepared statement follows:]

STATEMENT OF KAY R. WHITMORE, CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, EASTMAN KODAK CO., AND CHAIRMAN, THE BUSINESS ROUNDTABLE WORKING GROUP ON U.S.-MEXICO TRADE AND INVESTMENT

Mr. Chairman and Members of the Committee, I am pleased to participate in this hearing concerning President Bush's request for an extension of fast track authority to negotiate bilateral and multilateral trade agreements. I speak today on behalf of The Business Roundtable, an association of Chief Executive Officers of 200 major U.S. corporations who examine public issues that affect the economy and develop positions which seek to reflect sound economic and social principles.

Failure by the Congress to extend fast track authority would seriously impair the ability of our government to open markets for U.S. exports of goods and services. Without expanded foreign market access and growing exports, the U.S. economy will remain mired in the economic doldrums. Over the longer term, our standard of living and ability to create new good jobs for American workers will be jeopardized.

A COMPREHENSIVE TRADE STRATEGY

When the Congress enacted the 1988 Trade Act, it recognized the need for a comprehensive and aggressive international trade strategy. The Business Roundtable worked closely with the Congress to ensure that we have the tools to pursue bilateral and multilateral initiatives to open foreign markets to U.S. goods, services and investment.

We worked together to strengthen U.S. trade laws such as Section 301, and to provide fast track authority to negotiate comprehensive multilateral and bilateral agreements. We also worked to ensure that any negotiations would be a joint effort of the Congress, the Executive Branch and the private sector. The Congress also anticipated the need for a two year extension of "fast track" when it passed the 1988 Act.

Two negotiations are at the heart of President Bush's request for an extension: The GATT Uruguay Round and the proposed North American Free Trade Agreement.

THE GATT URUGUAY ROUND

Completion of the GATT Round remains a top trade priority for Business Roundtable companies. There is much to be gained in terms of added economic growth, jobs and prosperity for the United States from the successful completion of this Round. Tariff cuts by our trading partners, a comprehensive services accord and enhanced intellectual property protection will clearly be a major boon for American companies in global competition. True agricultural reform will not only play to one of our international competitive strengths, but help ease pressures on the U.S. budget deficit, as well.

It would be a grave mistake to deny President Bush the authority to complete these negotiations. The benefits for the United States from a successful Round are enormous. The cost of failure could be severe.

THE NORTH AMERICAN FREE TRADE AGREEMENT

Last June, The Business Roundtable issued a policy statement calling for comprehensive trade and investment negotiations with Mexico. At that time James Robinson of American Express testified before this Committee and outlined the reasons why Roundtable companies saw these negotiations in the overall economic interest of the United States.

Rather than repeat the Roundtable's earlier testimony, I would like to take this opportunity to set the record straight concerning the potential benefits for the United States from a comprehensive agreement. Setting the record straight is

necessary because there has been an enormous amount of misinformation and misunderstanding about this important issue.

I. Myth Number One: Mexico is too poor to buy our products.

Between 1986 and 1990, U.S. exports to Mexico rose by $16 billion in response to the partial liberalization of the Mexican economy and the economic recovery. As a result, the U.S. trade balance with Mexico swung from a deficit to a surplus in non-oil trade of over $3 billion, for a swing in our net export position of nearly $5 billion. With no other country have we experienced such strong export growth. Somebody in Mexico was buying our products.

II. Myth Number Two: Exports to Mexico do not create U.S. jobs.

American workers were employed making those extra exports. Using a rule of thumb of 30 U.S. jobs created for every one million dollars in net exports, that means an extra 144,500 jobs were created in the United States during 1986-90 because of trade with Mexico. Many more American workers would be unemployed were it not for exports to Mexico. Even if the relationship between job creation and exports is less than generally assumed, there is no doubt that there has been a very positive impact for American workers from developments in Mexico over the past four years.

III. Myth Number Three: Mexico is already open so there are no extra barriers for the U.S. to eliminate.

Mexico continues to maintain considerable barriers to U.S. exports. Autos are a good example.

The U.S. has a two and one half percent tariff. Mexico has a twenty percent tariff and other barriers to access. Mexico is a market of 500,000 vehicles. If that market were truly open, and if the Mexican economy continues to grow, it is easy to imagine the U.S. selling 100,000 U.S. made vehicles there. That alone would translate into an extra $1 billion in U.S. exports to Mexico on a sustained basis.

Another example is agriculture. At present, restrictive licensing inhibits 40 percent of our agricultural exports to Mexico.

IV. Myth Number Four: The benefits for the U.S. will be the same whether or not we have a Free Trade Agreement.

A major incentive to negotiate a Free Trade Agreement with Mexico is to achieve additional liberalization of the Mexican economy as well as lock in what has been done thus far. An agreement with the United States would go a long way to ensuring that the opening of the Mexican economy outlives the current Salinas Administration. Certainty and predictability are essential for business planning.

No doubt, President Salinas also understands the importance of predictability. Mexicans are finally regaining confidence in their own economy after the disastrous 1980's. An agreement would provide an extra boost to confidence inside Mexico, which in turn could lead to a boom in the Mexican economy. On the other hand, rejection by the Congress of fast track could trigger massive capital flight and renewed economic destabilization of the Mexican economy.

With a Free Trade Agreement, Mexico could easily experience 5 percent real growth over the next ten years. Given that 70 cents of every dollar spent on imports in Mexico is spent on U.S. goods, the potential benefit for American workers and American jobs is enormous.

If we lock in the opening of the Mexican economy with a Free Trade Agreement, what will we sell? Everything you can think of and things we cannot even conceive of now. A few examples:

- Caterpillar is the main supplier of heavy equipment to build new roads in Mexico. The infrastructure of Mexico is terrible and badly in need of upgrading. President Salinas has an innovative program funded by the private sector to build major new roads in Mexico. Already, Caterpillar's sales in Mexico have doubled every year since 1988.

- In 1989, General Electric's exports to Mexico totaled over $100 million dollars. These exports included locomotives, power generation equipment and diagnostic imaging equipment. GE's exports to Mexico are projected to grow fourfold in 1991, reaching $430 million. With a Free Trade Agreement, GE expects its exports to continue to increase at a comparable pace.

- Proctor and Gamble's net exports of finished products, raw materials, equipment and services to Mexico supports roughly 1,500 jobs in the United States. Their best estimate is that a free trade agreement will increase this figure by about 2,000 jobs for a total of 3,500. Some of those new jobs will be in Procter and Gamble, but many will be in their U.S. suppliers' businesses.

- Union Pacific Railroad is already adding jobs in Texas to handle the additional trains moving across the border and is likely to add more.

These stories can be repeated over and over again by hundreds of American companies. One final one about my own company, Kodak.

- In 1990, Kodak exports to Mexico were $126 million. We expect in the 1990s, with a free trade agreement, that Kodak's exports will at least double. As a result, in our sensitized goods operations, we expect U.S. employment which supports operations in Mexico to double, as well.

Mexico is our natural market. Let's lock it in.

V. Myth Number Five: A Free Trade Agreement with Mexico will result in massive job loss in the U.S as we are flooded with Mexican imports.

The fact is that the U.S. economy is mostly open to Mexican imports now, and we have hardly experienced a flood. The average U.S. tariff on Mexican imports is only 3.9 percent.

Nor should further liberalization between our two countries be disruptive for the U.S. economy overall. This is confirmed by each of the economic studies on the impact of a U.S.-Mexico Free Trade Agreement done thus far-- from the University of Maryland study for the Department of Labor, to the ITC study to the one done by Peat Marwick. In fact, each of these studies indicates that on balance a comprehensive agreement with Mexico will be beneficial for the United States and American workers.

VI. Myth Number Six: A Free Trade Agreement will result in massive U.S. job loss as American manufacturing moves South of the Border.

On many counts this is wrong. First, an important incentive for U.S. companies to invest in Mexico will disappear with an Agreement. My company, as well as

many others, invested in Mexico in the 60's and 70's to get inside a closed market. It was the only way we could sell there. With the barriers down, an important reason for relocating is gone.

Second, opponents assume that the cost of labor is the key variable in investment decisions by U.S. manufacturers. Other factors are at least as important, like transportation, communications infrastructure, financial and business services, high quality, reliable suppliers, proximity to market, and above all an educated, skilled, productive workforce.

With regard to this particular matter, I would like to quote Jacques Delors, President of the European Communities, since opponents like to say that there is no analogy between our situation with Mexico and that of the Community with the accession of Spain and Portugal:

> "Of course there will be investment in those countries where labor costs are lower, where social security is less and where employees -- and thus also the machines --work longer hours. But on the other hand, I ask myself if the European Community did not exist, if Spain and Portugal were not members of the European Community, would the problem really be different? We should not forget that the work factor is not the only criterion governing the company's choice of location. Financial conditions, training opportunities, availability of information and speed of access to information also are crucially important. The risk that a company might choose to set up elsewhere therefore should be viewed in perspective." (1992 - The Social Dimension, Feb. 1990, p. 56)

Mr. Delors made these arguments to counter opponents in the northern countries, and to urge limited European intervention because "social dumping" would not be a risk except in isolated cases.

Third, let's not forget that U.S. manufacturing production is at post-war high (23 percent of GNP). Even with substantial productivity gains, employment in manufacturing has stayed relatively constant over the last several years, although certainly the current recession is hurting. The reason is that manufacturing in this country has developed new products and new markets and new ways to maintain competitiveness. Surely, this would not be the case if our major preoccupation was cheap labor. To the contrary, the favorable trends are due in large measure to our growing export competitiveness.

Fourth, opponents forget that Mexicans are and will be the primary source of investment in the Mexican economy. Anywhere from $80 billion to $100 billion in Mexican money sits in American and foreign banks waiting to see whether there is stability and growth over a sustained period. Flight capital already is returning to Mexico in substantial amounts. More will come as confidence returns. So the biggest source of new investment in Mexico will be the Mexicans, themselves. Most investment is likely to be for infrastructure, such as transportation and communications to catch up after the very depressed levels of investment in the 1980's. We are the logical suppliers of the capital equipment and services to rebuild Mexico's infrastructure.

Furthermore, investment in Mexico, whatever the source, directly benefits the United States. For every extra dollar earned in Mexico, 20 cents is spent on U.S. goods. With no other country does the United States have such a direct, beneficial economic relationship.

Finally, why are we so afraid of investment by U.S. companies in Mexico? There has always been some and there will no doubt be more. In many instances, U.S. companies invest in some parts of production in Mexico to maximize global competitiveness, and as a result, maintain production and high

value added jobs in the United States. Without some assembly in Mexico, often there would be no production in the United States at all. Rather, production would move off-shore entirely, or companies would simply stop making that particular product.

For example:

- Dana Corporation, a major auto parts manufacturer currently exports two dollars of product from the United States to Mexico for every dollar it imports. With a Free Trade Agreement, Dana, the second largest auto parts manufacturer in the world, estimates that its exports will rise even further. This is contrary to the popular notion that auto parts in the United States will be damaged by free trade.

- General Motors' Packard Electric Division produces powered signal distribution systems for GM and many non-GM customers. Components from Packard's U.S. operations are shipped to Mexico for labor intensive assembly. By placing subassembly in Mexico, and retaining high technology operations in the United States, Packard has been able to enhance its competitiveness and secure significant business with non-GM customers, which in turn has created new component business in the U.S. The local union leadership of the International Union of Electrical Works is supportive of this co-production and recognizes that it is essential to maintain competitiveness and jobs in the United States.

- In a recent petition to the USTR requesting duty free status for ceramic magnets imported from their Mexican operation, the local union of the International Union of Electrical Workers joined with the management of another division of GM, to argue that their Mexican operation helps them to be more competitive.

- AT&T has shifted repair of its cordless phones from Singapore to Mexico. The turnaround time on the repair work is now one quarter of what it was. This has allowed AT&T to become more competitive which has led to lower prices and created more sales jobs in the United States.

- Another example from Kodak. In 1986, Kodak moved its harness assembly for copiers from Rochester to Mexico because the operation was not cost-competitive. The choice was to move it to Kodak Mexico or out-source to the most competitive non-US supplier. By moving it to Mexico, Kodak had the time to develop new technology which was less labor intensive for Rochester, as well as value added services such as product design, drafting, and other activities necessary to stay in the business and enhance world-wide competitiveness. By moving the assembly operation to Mexico, we saved 300 jobs in Rochester.

To say that there is no direct benefit to the United States in co-production is simply not true.

VII. MYTH NUMBER SEVEN: Everyone in Mexico makes 57 cents an hour.

According to the U.S. Dept. of Labor, hourly compensation in Mexico by major occupation is as follows: $1.89 for unskilled laborers, $2.38 for semi-skilled workers, $2.97 for clerical workers and $14 per hour for professional/managerial workers.

According to the Wharton Group, the average compensation of a maquiladora worker is $1.60 per hour. The Wharton group estimates that in 1989,

technicians and administration personnel in the maquiladoras made up to $4.50 per hour.

It is true that the minimum wage in Mexico is very low, but workers in manufacturing are not receiving that wage, and it is these workers that opponents say we are competing against. Let's also remember that the U.S. worker is far more productive than his Mexican counterpart. The wage gap reflects the huge productivity gap.

Opponents assume that Mexico deliberately is pursuing a low wage strategy for exports. They conveniently forget that Mexico suffered a major debt crisis in the 1980's which prompted a real decline in wages, not a deliberate strategy to keep the Mexican worker down. In 1980, Mexican manufacturing compensation was $3.00 an hour. The Salinas Administration's ultimate goal is to get back to that level and exceed it, not keep wages down.

VIII. Myth Number Eight: We have no commitment in this country to handle economic adjustment.

First, The Business Roundtable strongly endorses the idea that we will need appropriate transition periods for certain sectors of the U.S. economy to ensure a smooth transition and adjustment.

Second, The Business Roundtable supports inclusion of an escape clause in the agreement in the event a surge of imports is the substantial cause of serious injury.

Third, while I would certainly be the first to say that we need to do a much better job of educating, training, and retraining our workforce to ensure rising living standards in this country in the years ahead, to say that little is being done in this area is false. U.S. companies spend $30-$50 billion in hard cash and incurred another $150-$170 billion in expenses for benefits, salaries, and lost time every year training and retraining American workers.

There are government programs, as well, such as the Job Training and Partnership Act designed to help dislocated workers. Rather than saying that we cannot move ahead with negotiations with Mexico, the public and private sectors should consider creative ways to target programs more effectively.

Finally, The Business Roundtable has made a major 50 state commitment to improve levels and standards of education in this country. In each state, Roundtable companies are working closely with the governors to achieve important results by the year 2000. We are doing this because we are concerned that we will not have the workforce we need to maintain our competitiveness in the years ahead. Roundtable companies would not be putting this much effort into improving education in this country if we were not committed to maintaining production in the United States.

IX. Myth Number Nine: Mexico has no environmental laws and workers rights.

In 1988, Mexico passed a comprehensive environmental law patterned after ours. New investments must now include a detailed assessment of their environmental impact, and the impact must meet regional environmental standards. Investment approval is tied to compliance. Criminal penalties and administrative sanctions exist for non-compliance.

Mexican laws on workers rights are codified in their constitution. They ensure the right of association, the right to organize and bargain collectively, the

prohibition of forced or compulsory labor, a minimum age for employment of children, as well as set minimum wage levels and maximum hours of work. The same labor rights and standards apply throughout Mexico, including the maquiladoras. Mexican laws are at least as comprehensive and stringent as ours, and in some cases more so.

So, lack of laws providing adequate protection in the areas of the environment and workers rights is not the problem. The major problem is enforcement.

Opponents assume that companies will rush to Mexico to take advantage of lower environmental enforcement and standards. As with wage rates, they make the mistake of assuming that diverging environmental standards drive investment. Many factors are far more important. Besides, most major companies today have global environmental standards which means investments any where in the world will be made to the same high standards.

Furthermore, no intelligent businessman today would flee to Mexico for environmental reasons when investment is a ten year project. It would be very foolish to assume that Mexican enforcement will not be substantially improved in that time period. In fact, Mexico is already showing a strong commitment to the environment. The Salinas government has promised that all new investment in Mexico must conform to its new environmental laws. With respect to existing investment, new efforts are underway. For example, they shut down a major oil refinery outside Mexico City, and altogether have closed 900 operations for non-compliance with the law.

Nevertheless, it is important that the United States and Mexico intensify their efforts to address these issues in parallel with the FTA negotiations. Achieving real progress and substantive results on the environment and workers rights must be a high priority of an enhanced U.S.-Mexican relationship in the years to come.

X. Myth Number Ten: We can negotiate with Mexico without fast track.

The reality is without fast track we can no more negotiate with the Mexicans than with a hundred countries in the GATT. However, if fast track works right, Congress and the private sector will be extensively consulted and involved throughout the process.

Like you, the business community is not prepared to give a blank check to the Administration. We expect a good deal solidly in our interest. To this end, The Business Roundtable has developed detailed objectives of what we hope to achieve in the negotiations. Our objectives cover tariffs, non-tariff barriers, investment, services, intellectual property, and dispute settlement. We want a deal that furthers American exports, and enhances American jobs. Otherwise, we will not support it any more than you.

Nor do we see any need to rush. If it takes six months, or if it takes six years, we expect the Administration to bring us a good agreement.

Thank you.

Mr. MOODY. Thank you very much.
Mr. Hartley.

STATEMENT OF JOHN T. HARTLEY, CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, HARRIS CORP., AND CHAIRMAN OF THE BOARD, NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. HARTLEY. Thank you, Mr. Moody. I am Jack Hartley, the chairman and chief executive officer of Harris Corp. In addition to my responsibilities at Harris Corp. I am also the chairman of the National Association of Manufacturers, and my testimony expresses the views and the concerns of NAM and its 13,500 members as well as those of the Harris Corp. I have submitted my written testimony to the committee and I appreciate the opportunity to make a few summary comments.

We believe that the 2-year extension of the fast-track negotiating authority which was requested by the administration on March 1 under the terms of the 1988 Trade Act is vital to the interest of American manufacturers. Our petition to this committee and to the Congress is that the fast-track extension be granted.

Under the law Congress gives the executive branch its negotiating mandate, provides advice on the conduct of the negotiations throughout the process, and has the final say as to whether the product of any given negotiation shall be made law in the United States.

There is also a promise involved however. In essence, section 151 of the 1974 act is a promise from the House and the Senate to the executive branch and to our trading partners. This is that whatever is negotiated will get a fair hearing in the U.S. Congress and that there will be an up or down vote within a definite period. In the absence of such a commitment, it is inconceivable that any of our trading partners would make meaningful concessions in any trade negotiation touching upon U.S. law. Some of our most important trading partners have stated categorically that in the absence of an extension of fast-track they simply will not negotiate with the United States.

These are not abstract considerations. If Congress approves an extension of the fast-track negotiating authority that authority will be used to further two major objectives, and we have been talking about these, of course, this morning. The first of these is to bring the Uruguay round of multilateral trade negotiations to a successful conclusion. And the second is to negotiate a new North American Free-Trade Agreement. The National Association of Manufacturers strongly supports both of these goals and I think each deserves a separate comment.

The Uruguay round is by far the most ambitious set of multilateral negotiations to have been undertaken since the United States and a handful of other countries signed the General Agreement on Tariffs and Trade in 1947. Today there are 101 GATT-contracting partners and the GATT is clearly established as the basic law of international trade. It is rightly credited with being the essential component of the dramatic increases in world trade that we have seen in the last four decades. The GATT has not, however, kept

pace with the changes it inspired, and its role in the world trading system will erode if it is not modernized, expanded and improved.

NAM, including Harris Corp., has a number of trade-related objectives that we believe can be achieved in the Uruguay round. Congress, by allowing fast-track extension allows the round to be completed. Let me cite just a few.

On the subject of tariffs, we want to see lower tariffs. Indeed, with respect to semiconductors and certain other products, Harris Corp. would like to see tariffs completely eliminated in the major trading countries. U.S. tariffs on these products are already very low—this is a very important point—and therefore, do not offer any significant protection to U.S. producers. However, tariffs abroad not only impede our exports but often do so without conferring decisive benefits on indigenous producers.

It is for that reason that Harris Corp. has joined with others in forming the Zero Tariff Coalition. We and our partners in this group would like to see tariffs eliminated completely in many of the sectors we represent. We are pleased with the energy and the enthusiasm that the USTR's office has shown in pursuing these objectives. Of course, not all of the Zero Tariff Coalition objectives are going to be successful in the Uruguay round. Some of them could be, but only if the fast track is extended.

In the case of intellectual property, which is very important to my company and to I think others of us represented here today, it is hard to overstate the importance of amending the international trading rules so that they provide clear protection for intellectual property rights. This can only be accomplished if fast track is extended.

In terms of overseas investments, it should now be clear to all concerned that protectionist practices frequently associated with overseas investments make a mockery of trading rules. That problem is part of the agenda of the Uruguay round and progress is possible, but only if fast track is extended.

Our hope for the Uruguay round is that it will improve existing rules in a number of areas. One example is the 1979 GATT subsidies code. That has not worked well. The round provides an opportunity to put real meaning into the language of the current agreement, to cut back on the overall level of trade-distorting subsidies, to graduate the stronger, developing countries from too great a reliance on subsidies, and perhaps even to address the difficult issue of industrial targeting. Again, there will be no progress in these or other areas without fast track.

With $400 billion in 1990 sales American exports are coming back. They are stronger now than they have ever been. By the mid-1990's they should begin to reverse the national financial burden resulting from almost two decades of trade deficits which now amount to well over $1 trillion in total.

The GATT will not collapse if the Uruguay round fails, but the trading system will change in ways that I think all of us will not like. Countries will regard themselves as less constrained by GATT. With the world's most open domestic market—a very important point—American companies will be at a particular disadvantage. We will constantly be challenging the mercantilistic practices of other countries.

Almost certainly many of our trading partners would respond to a failure of the Uruguay round by intensifying their efforts to strengthen existing regional trading ties and by forging new ones. Ironically, that option would be foreclosed to the United States by congressional denial of the requested fast-track extension.

That brings us to the question of the Mexico free trade agreement. NAM was a strong supporter of the 1988 Canada-United States Free-Trade Agreement and we believe that the new North American agreement that the President has proposed could be extremely beneficial to American industry and should be pursued. The major new elements, of course, are those associated with free trade with Mexico. Harris' own business ties to Mexico have been cyclical and are not substantial at the present time, representing only a few tens of millions of dollars.

I do however concur in the judgment of my NAM colleagues that these negotiations offer significant potential benefits for American industry and so should be pursued. Our reasons for this are set out in my written testimony.

Our views differ markedly from those of the representatives of organized labor who spoke earlier, yet in a very profound sense I think we are all very indebted to them. The campaign that they have mounted against a free-trade agreement with Mexico has had the effect of making the proposed agreement a sensitive domestic political issue.

That has both long-term and short-term advantages. In the short term, it guarantees that the administration will not make generous concessions for the sake of calming the political waters in Mexico. And it also means that everyone involved in this process in the United States will watch these negotiations very closely and will weigh the results carefully.

More broadly, critics of these negotiations have focused increased attention on the debate about American competitiveness; what it means and what it will take to maintain and improve it. It was concern about these questions that led the NAM to write President Bush last month and propose that he establish a Presidential task force, an economic team to undertake a comprehensive rethinking of American international economic policy, goals, and objectives.

With respect to the issue at hand, however, first and foremost we need a successful conclusion of the Uruguay round. In considering the arguments against free trade with Mexico, we do not agree that America can afford to build its future with unskilled labor. We do not agree that there is economic security in the status quo. We are confident that American firms can hold their own with Mexican competitors in the long term.

We do believe that a free-trade agreement with Mexico will strengthen the Mexican economy, but we do not believe that Mexican development will be or should be at our expense. On the contrary, we are convinced that faster growth in Mexico will mean more growth in the United States. If there is an agreement, we will want to testify on it. We think that Congress can and will make the right decision with respect to whatever agreement is finally negotiated. However, unless fast track is extended none of us will have that chance.

Thank you.

[The prepared statement follows:]

TESTIMONY

Of

JOHN T. HARTLEY
Chairman, President and
Chief Executive Officer
HARRIS CORPORATION

and

Chairman of the Board
NATIONAL ASSOCIATION OF MANUFACTURERS

Before the

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

April 11, 1991

Mr. Chairman, Members of the Committee, I am John Hartley, and I am the chairman, president and chief executive officer of Harris Corporation. Harris is a leading producer of electronic systems, communication systems, semiconductors and office equipment with a strong interest in international trade. I am also the chairman of the National Association of Manufacturers, and my testimony expresses the views and concerns of NAM and its 13,500 members as well as those of Harris Corporation.

We believe that the two-year extension of the "fast-track" negotiating authority, which was requested by the Administration on March 1 under the terms of the 1988 Trade Act, is vital to the interests of American manufacturers. Our petition to this committee and to the Congress is that the fast-track extension be granted.

The motto of the United States "E Pluribus Unum," One from Many, encapsulates the perpetual challenge to American government, a challenge that is fully reflected in the technically arcane but politically clear question of fast-track.

For the United States, trade is a private, commercial activity. The $400 billion our country earned in exports last year was the result of the work of thousands of American companies and the people who work for them. Trade policy, however, is solely the province of governments. Its implementation techniques are numerous, ranging from tariffs to investment laws, and its consequences are enormous. Everyone is affected by trade policy and almost everyone would like to influence it.

In this, as in other areas, the Constitutional arrangement is one of shared powers, in which the Executive is charged with the conduct of international negotiations and the Congress with the regulation of trade. The fast-track provisions of the Trade Acts of 1974 and 1988 pull together the array of U.S. interests that need to be considered and provides for an extremely effective implementation of the Constitutional idea.

Under the law, Congress gives the Executive Branch its negotiating mandate, provides advice on the conduct of the negotiations throughout the process, and has the final say as to whether the product of any given negotiation shall be made law in the United States.

There is also a promise involved. In essence, Section 151 of the 1974 Act is a promise from the House and Senate to the Executive Branch and to our trading partners. This is that whatever is negotiated will get a fair hearing in the U.S. Congress, and that there will be an up-or-down vote within a definite period. In the absence of such a commitment, it is inconceivable that any of our trading partners would make meaningful concessions in any trade negotiation touching upon

U.S. law. Some of our most important trading partners have stated categorically that, in the absence of an extension of fast track, they simply will not negotiate with the United States.

These are not abstract considerations. If Congress approves an extension of the fast track negotiating authority, that authority will be used to further two major objectives. The first of these is to bring the Uruguay Round of multilateral trade negotiations to a successful conclusion, and the second is to negotiate a new North American free-trade agreement.

The National Association of Manufacturers strongly supports both of these goals. Each deserves a separate comment.

URUGUAY ROUND

The Uruguay Round is by far the most ambitious set of multilateral negotiations to have been undertaken since the United States and a handful of other countries signed the General Agreement on Tariffs and Trade in 1948. Today there are 101 GATT Contracting Parties, and the GATT is clearly established as the basic law of international trade. It is rightly credited with being the essential component of the dramatic increases in world trade that we have seen in the last four decades.

The GATT has not, however, kept pace with the changes it inspired. Unquestionably, its role in the trading system will erode if it is not modernized, expanded, and improved.

NAM, including the Harris Corp., has a number of trade-related objectives that we believe can be achieved in the Uruguay Round if Congress, by allowing fast track extension, allows the Round to be completed. Let me cite just a few such objectives:

Tariffs. We want to see lower tariffs. Indeed, with respect to semiconductors and certain other products, Harris Corp. would like to see tariffs completely eliminated in the major trading countries. U.S. tariffs on these products are low and do not offer any significant protection. Tariffs abroad impede our exports, often without conferring decisive benefits on indigenous producers. In short, tariffs in these areas distort trade, often without real benefit to anyone.

It is for that reason that Harris has joined with others in forming the Zero Tariff Coalition. We and our partners in this group would like to see tariffs completely eliminated in the sectors we represent. We are pleased with the energy and enthusiasm that the U.S. Trade Representative's Office has shown in pursuing this objective. NAM is 100 percent behind the Zero Tariff Coalition goals.

Not all of the Zero Tariff Coalition members are going to be successful in the Uruguay Round. Some of them could be, but only if fast track is extended.

Intellectual Property. For a high-technology company like Harris, it is hard to overstate the importance of amending the international trading rules so that they provide clear protection for intellectual property rights. This can only be accomplished if fast track is extended.

Investment. Similarly, it should now be clear to all concerned that the performance requirements frequently associated with foreign investments make a mockery of trading rules. Lower tariffs, for example, mean little if governments can effectively force foreign companies to buy locally made goods as a condition of investment. That problem is part of the agenda of the Uruguay Round. Progress is possible, but only if fast track is extended.

GATT Agreements. In a number of areas, our hope for the Uruguay Round is that it will improve the existing rules. One example is the 1979 GATT Subsidies Code. It has not worked well.

The Round provides an opportunity to correct the ambivalent language of the current agreement and to give it real meaning, to cut back on the overall level of trade-distorting subsidies, to graduate the stronger developing countries from too great a reliance on subsidies, and, perhaps even to address the difficult issue of industrial targeting. Again, there will be no progress in these or other areas without fast track.

American exports are coming back. They are stronger now than they have ever been, and at current rates should begin to reverse the national financial burden associated with almost two decades of trade deficits, which now amount to well over a trillion dollars.

The GATT will not collapse if the Uruguay Round fails, but the trading system will change in ways that we will not like. Countries will regard themselves as less constrained by the GATT. With a domestic market that is the most open in the world American companies will be at a particular disadvantage. We will constantly be challenging the mercantilistic policies of other countries as they arise, and we will be reminded that it was our government that opened the Pandora's box of a major GATT failure.

NORTH AMERICAN TRADE ...

Almost certainly many of our trading partners would greet a failure of the Uruguay Round by intensifying their efforts to strengthen the regional trading ties they have and by forging new ones. Ironically, that option would be foreclosed for the United States by the same political action that now threatens the Uruguay Round, namely, Congressional denial of the requested fast-track extension.

NAM was a strong supporter of the 1988 Canada-U.S. Free Trade Agreement. We believe that the new North American Agreement the President has proposed could be extremely beneficial to American industry and should be pursued. The major new elements, of course, are those associated with free trade with Mexico.

MEXICO

As NAM has noted in other settings, U.S. trade in North America differs in some respects from our trade with other parts of the world. First, it is characterized by intra-company trade to a greater degree than elsewhere. Whether one focuses on the U.S.-Canada autopact or the maquiladora programs, what one sees is production sharing on a grand scale. To one degree or another, the economies of all three countries depend upon the same firms for their economic well being. And most of those firms are engaged in intensive, unremitting, global competition.

It is in the interest of all three societies that those firms be as efficient as possible. The principal arguments for negotiating a North American free-trade agreement are that it could both enhance competitiveness and increase economic activity in all three countries.

A second characteristic of our trade with Mexico and Canada is that it is trade with neighbors. As such it carries with it political implications which, if not absent, are less prominent in other trading relationships. The French one hears in Vermont and Maine and the Spanish that is spoken in California and Texas give testimony to that.

It has been argued that we should not attempt a free-trade agreement with Mexico because the disparity in per capita income levels is too great ($1,600 in Mexico versus $19,800 in the United States)[1]. To the extent that an agreement should work to

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[1]1988 figures.

raise income levels in Mexico, the argument runs the other way. No one benefits from envious neighbors or impoverished customers. Our interests lie the opposite direction.

OPPORTUNITIES FOR THE UNITED STATES

Indeed, American corporations -- among them Rubbermaid, Procter and Gamble, Chrysler, and Eastman Kodak --expect to see new export opportunities for their companies as a result of the combination of a North American free-trade agreement and an increase in the size and purchasing power of the Mexican middle class.

The U.S. economy is much more open than that of Mexico. Our tariffs are extremely low and our investment restrictions are more an economic footnote than a factor in economic decisions. We do not restrict trade by import licensing or by balance-of-trade requirements that limit the choices of firms located here. And we do not attempt to run two separate economies, a relatively efficient export economy and an inefficient domestic one.

To some extent, Mexico does all of these things, and in each area the changes we can expect from a well-negotiated free-trade agreement with Mexico should offer new opportunities to American firms.

Two facts need to be kept in mind. The first is that we have, and will continue to have, a large and growing economic relationship with Mexico. The second is that it is the Mexican economy that, in relative terms, is still closed.

GUIDELINES FOR AN AGREEMENT

None of the potential advantages of a U.S.-Mexico agreement are assured. In view of the persistence of the U.S. trade deficit ($1.8 billion of which was with Mexico in 1990) and the growing importance of international trade to the U.S. economy, it is essential that U.S. negotiators proceed carefully and with a clear sense of U.S. economic goals. As supportive as we are of the President's intention to negotiate a new North American agreement, NAM would oppose any agreement with Mexico that did not clearly advance the economic interests of American manufacturers.

There are two obvious guidelines for these negotiations. First, the agreement we seek should be consistent with the General Agreement on Tariffs and Trade (GATT). Second, it should be a comprehensive agreement along the lines of the 1988 U.S.-Canada Free Trade Agreement. Certainly, there are areas, such as protection for intellectual property rights, where we might have done better in the earlier negotiation. In those areas, we should strive to improve on the first draft. On the other hand, where the U.S.-Canada agreement gives us good, strong guidance on the kinds of rules that can promote and facilitate free trade among neighboring countries, we should seek to replicate them in this next agreement.

Because Canada will be a party to these negotiations, I would like to endorse what is informally referred to as "the pledge." This is that there will be no backsliding. In other words, neither Canada nor the United States will use these new negotiations to undercut the progress made in the 1988 agreement.

SIX OBJECTIVES

Beyond these two guidelines, we would urge the negotiators to pay particular attention to the following six objectives:

1. **Symmetrical tariff reductions.** With very few exceptions, U.S. tariffs are already very low, and presumably many more will go to zero in the next few

years as a result of the new North American FTA. The discussion on tariffs is likely to be both intense and complex, and it may well be that the parties will decide upon some schedule of reductions that differs in important ways from the arrangement adopted in the agreement with Canada. The United States should not, however, reduce its tariffs in particular product categories any more rapidly than Mexico does. Both countries should achieve zero tariffs in the same time frames on the same products.

2. **Investment.** Ultimately, we would like to see non-restrictive and non-distorting investment policies in Mexico as part of the agreement. The path to these objectives, however, is every bit as important as the objectives themselves. American companies in Mexico have already paid a high price for the "privilege" of operating in Mexico under mercantilistic rules. While those rules should be changed, they should be changed in a manner and in a time frame that minimizes economic harm to the interests of those American firms that have significant investments in Mexico.

3. **Intellectual Property.** As indicated earlier, the agreement should contain effective and enforceable provisions for the protection of intellectual property. It should not simply incorporate previously promised liberalization in one sector, while ignoring the larger issues associated with the protection of intellectual property rights.

4. **Benefits to North America.** The agreement should provide mechanisms for ensuring that the benefits of the agreement accrue primarily to the North American participants. We expect the negotiators to spend a lot of time on the rules of origin to be applied in an agreement with Mexico. We cannot afford to offer uncompensated free trade to manufacturers anywhere in the world simply because they set up assembly operations in Mexico.

5. **Safeguards.** The testimony this committee has already heard suggests that some individual sectors of the U.S. economy may be adversely impacted by import surges associated with the implementation of the agreement. The agreement needs to address this issue.

6. **Energy.** The agreement should contain clear language, as the U.S.-Canada agreement does, regarding each party's access to energy and energy markets. Because energy and petroleum feedstocks are so important to so many industries, failure to address this issue could easily turn a free-trade agreement into an inequitable adjunct of one party's industrial policy.

EXAMPLE AND SPECIAL ISSUES

Mr. Chairman, over 80 percent of the industrial output of the United States is represented by the members of the National Association of Manufacturers, and it is not our practice to focus on any one industry. The International Trade Commission's recent report on a North American free-trade agreement has helped us all to better understand the likely impacts of the agreement on selected sectors.

I would suggest to you and to the U.S. negotiators, however, that we need to look very closely at the developments in the automotive sector. This sector accounts for the lion's share of U.S. trade with Mexico and U.S. investment in Mexico. Further, the challenge of these negotiations for the major American automobile companies highlights many of the most important issues in these negotiations. They have been disadvantaged by Mexican

protectionism and, ironically, they could be further harmed by a less than careful disestablishment of the current trade regime.

Similarly, it is the automobile companies, among others, who face the problem that their non-North American rivals could gain unintended advantages from a U.S.-Mexican agreement unless great care is taken in fashioning the rules of origin.

NAM will base its final judgement about a new agreement on the interests of all of its members. At this juncture, though, it is probably fair to use the rule of thumb that if the agreement doesn't work for the American automobile companies, it is probably not a good agreement.

WAGE RATE DISPARITIES

The issue of the wage rate disparities between the United States and Mexico is one that everyone concerned with these negotiations will be examining closely over the course of the next several months. Here, I would just make a few brief observations.

The first is that wages are far from being the sole determinant when companies decide on plant locations. Indeed, they continue to be of lesser importance as automation reduces the labor component of production. While it is undeniably true that significant wage disparities exist between the United States and Mexico, the agreement would almost certainly have the effect of narrowing this gap over time by raising wages in Mexico. We see no reason to believe that there would be an adverse impact on U.S. wages.

ENVIRONMENTAL ISSUES

Environmental questions have properly been raised in the discussion about the proposed agreement. NAM is not proposing that the North American Free-Trade Agreement contain a chapter on the environment, but we do think it important that the U.S. government carefully analyzes the likely trade consequences of the differences in the environmental protection regimes of the two countries.

On the question of how the agreement will affect the physical environment of the earth, we are not inclined to be pessimistic. New investment in Mexico associated with the agreement is likely to be state-of-the-art and less likely to harm the environment than existing facilities. Also, as Ambassador Hills has noted, a richer Mexico will be in a better position to enforce environmental laws which, I am told, are broadly similar to our own.

ONLY THE BEGINNING

Mr. Chairman, there are other considerations, which I have not discussed, that will also need to be addressed, such as a dispute settlement mechanism and possibly an exchange rate provision.

But this is only the beginning of the process. NAM will be reviewing these issues regularly over the next several months. We will advise this committee and the Administration of our views as they are developed. Even at this stage, however, I can say with some confidence that a North American Free-Trade Agreement, an agreement with Mexico, that clearly reflected the guidelines and objectives described above would almost certainly enjoy the enthusiastic support of the National Association of Manufacturers.

TRADE AS A DOMESTIC ISSUE

Mr. Chairman, our views differ markedly from those of the representatives of organized labor who spoke earlier. Yet in a very profound sense, we are indebted to them. The campaign they have mounted against a free-trade agreement with Mexico has had the effect of making the proposed agreement a sensitive, domestic political issue. That has both long-term and short term advantages. In the short term it guarantees that the Administration will not make generous concessions for the sake of calming the political waters in Mexico, and it also means that everyone involved in this process will watch these negotiations very closely and weigh the results carefully.

More broadly, critics of these negotiations have raised the level of debate on American competitiveness, what it means and what it will take. It was these same considerations that led the NAM to write to President Bush last month and to propose that he establish a Presidential task force (an Economic Team B) to undertake a "comprehensive rethinking of American [international economic policy] goals and objectives..."

CONCLUSION

With respect to the issue at hand, however, first and foremost we need a successful conclusion to the Uruguay Round.

In considering the arguments against free trade with Mexico, we do not agree that America can afford to build its future with unskilled labor. We do not agree that there is economic security in the status quo. We are confident that American firms can hold their own with Mexican competitors. We do believe that a free trade agreement with Mexico will strengthen the Mexican economy, but we do not believe that Mexican development will be at our expense. On the contrary, we are convinced that faster growth in Mexico will mean more growth in the United States.

If there is an agreement, we will want to testify on it. We think that Congress can and will make the right decision with respect to whatever agreement is finally negotiated.

However, unless fast-track is extended, none of us will have that chance.

Thank you.

Mr. MOODY. Thank you very much.
Ms. Hettinga.

STATEMENT OF JEANINE HETTINGA, PRESIDENT AND CHIEF EXECUTIVE OFFICER, HETTINGA EQUIPMENT, INC., DES MOINES, IA, AND MEMBER, BOARD OF DIRECTORS, SMALL BUSINESS COUNCIL, AND INTERNATIONAL POLICY COMMITTEE, U.S. CHAMBER OF COMMERCE

Ms. HETTINGA. Good afternoon, Mr. Chairman. I am Jeanine Hettinga and I am president and CEO of Hettinga Equipment and Prima Plastics. We are located in Des Moines, IA, and are a small business. I am a member of the U.S. Chamber of Commerce board. I sit on the Small Business Advisory Council and also on the International Policy Committee. On behalf of the chamber, I am pleased to testify in support of the extension of the so-called fast-track authority.

The U.S. Chamber represents 180,000 members; 90 percent of those or better are small business. And as we all are aware today, 80 percent of all the new jobs created in this country are by small business. We believe that such authority should go to the President to negotiate trade agreements. This position is not a new one as you will read in our paper submitted.

Our reasoning for the support is straightforward. If I as a business person am going out to negotiate an agreement, I want to be able to talk with the person who has authority to conclude that agreement. Now this does not—fast track does not contend that it is out of the hands of Congress completely. We still have a chance to represent public debate on some important policy issues.

Many argue that if fast-track authority is granted the administration will have carte blanche to include or exclude anything if it wants in the agreement. This is not the case. Despite its name, fast-track authority is not quite all that fast. The Congress has plenty of time. They have notification. Consultation and approval processes provided in the fast-track mechanism give Congress ample opportunity to influence the outcome of those negotiations.

Moreover, the administration will have a powerful incentive to consult closely with U.S. businesses since an agreement not acceptable to the broad spectrum of American businesses is doomed to failure.

Such concerns about fast track that we are hearing through the media and other places are unfounded and belie concerns about the potential dislocation of American workers and companies. We believe very much that the fast-track authority and the FTA agreement with Mexico will indeed increase new jobs in this country tremendously. We ourselves are in the high-intensive, capital-intensive machinery business and we see many sales into Mexico that we have not, therefore participated.

Trade between Mexico and the United States exceeded $59 billion in 1990, and as was previously stated, Mexico is our third largest trading partner only behind Canada and Japan. While the United States is Mexico's largest market and Mexico's largest foreign investor—we have something like $12 billion in investments down there—the opportunity is at hand to increase these figures

several fold within a few years. The removal of tariff and nontariff barriers to trade and investment under a free-trade agreement will increase business opportunities on both sides of the border.

We feel that there are certain guiding principles for these negotiations. In particular, we should negotiate our agreements on tariffs, nontariff barriers, agriculture, investment, services, and intellectual property. I feel very strongly about the intellectual property as a company who invests 5 percent of the gross product back into research and development.

It is also our hope that these issues would be substantially advanced in the Uruguay round of GATT, thus facilitating the FTA negotiations. Should this current round not succeed, it should not jeopardize an FTA. It would only mean more work for our negotiators to conclude such.

We also do not believe that the FTA negotiation should be a catch-all for every other economic and noneconomic problem. Other issues such as the environmental degradation, immigration, narcotics, and labor conditions, while important in their overall relationship, should be addressed through separate mechanisms more appropriate than the FTA negotiations.

We also recognize that the liberalization process could create dislocations affecting labor as well as various industries and localities. Thus, the agreement should provide temporary safeguards and adjustment assistance. Existing U.S. law providing such safeguards and assistance should be used to the maximum extent possible. The agreement should also provide effective dispute settlement procedures and periodic reviews. Extremely important.

We feel that with the inclusion of Mexico, Canada, and the United States we have shown that we will have a larger—it is going to be like $6 trillion combined input, which is 25 percent greater than the European Community's output of $4.8 trillion. Such an arrangement should grant the United States, Mexico, and Canada, individually and collectively, increased influence for obtaining greater access to other markets.

It is time for Congress to look beyond the short term and to do something that will help the competitive position of the United States far into the future. We are going to lose the low-paying jobs to the Southeast Asian market, so why not put them in an area where we can have the greatest trade return back to us? We have seen in the past few years the improvement of the economic situation in Mexico. Some of that is obviously apparent by the amount of tourist people—and I am not talking about the people coming across the border illegally, but people coming in from Mexico to enjoy our fair country.

Among some of the things that we feel should be included, this agreement should be comprehensive with a view to going beyond the Uruguay round agreements. We should cover tariffs, nontariff barriers, agriculture, investment, services and intellectual property protection. We should ensure that trade benefits accrue to both the United States and Mexico, specifically to avoid third country components from being processed in Mexico, stamped Made In Mexico, and exported to the United States. Rules of origin must be executed.

We should allow temporary safeguards and measures to deal with serious injury to industries, labor and localities resulting from the liberalization process. We should include a well-defined process for removing technical and administrative barriers to trade and investment identified during the operation of the free-trade agreements. We should establish a program of staged full-phase reduction of tariffs and NTB's consistent with GATT obligations.

We should provide effective dispute settlement procedures. We should establish periodic reviews of the FTA. And we should lay the groundwork for a single market encompassing the United States, Mexico and Canada which individually and collectively will have more influence for obtaining greater access to other markets in the world.

Thank you.

[The prepared statement and attachment follow:]

STATEMENT
on
"FAST TRACK" NEGOTIATING AUTHORITY
FOR TRADE AGREEMENTS
before the
HOUSE WAYS AND MEANS COMMITTEE
for the
U.S. CHAMBER OF COMMERCE
by
Jeanine Hettinga
April 11, 1991

Good morning Mr. Chairman. I am Jeanine Hettinga, President and CEO of Hettinga Equipment, Inc. of Des Moines, Iowa. I am a member of the U.S. Chamber of Commerce's Board of Directors, as well as its Small Business Council and International Policy Committee. On behalf of the U.S. Chamber of Commerce, I am pleased to testify in support of the extension of so-called "fast track" negotiating authority to the President. The Chamber believes that such authority is essential if the United States is to pursue negotiations in the GATT Uruguay Round, with Mexico and Canada to establish a North American Free Trade Agreement (FTA), and trade agreements with other countries as opportunities arise. The Chamber believes that such agreements, if properly negotiated, would be beneficial to a broad base of its 180,000 members -- ranging from most of the Fortune 500 companies to tens of thousands of small and medium-sized firms.

"FAST TRACK" NEGOTIATING AUTHORITY:

The Chamber supports Congress delegating such authority to negotiate trade agreements. Our support for extending this authority to the President is not new. It dates back to our support for the Omnibus Competitiveness and Trade Act of 1988 as well as previous legislation providing for such negotiating authority, the 1974 Trade Act. Indeed, the U.S. Chamber has supported the concept of "fast track" trade negotiating authority since its inception as "tariff proclamation authority" in 1934. Our reasoning for this support is straightforward -- our trading partners will not sit down at the negotiating table if any agreement with the United States they initial and commit to politically is subject to unilateral modifications ex post facto by Members of Congress. To those of us in the business community, this is a basic tenet of doing business. You do not waste your time and make commitments to contract negotiators who are not in a position to commit their company to an agreement.

There are those who contend that "fast track" cuts the U.S. Congress out of the loop and forgoes public debate on important public policy issues. The Chamber rejects these arguments as being inconsistent with the facts and history. Indeed, when the initial agreement negotiated during the GATT Kennedy Round in the 1970's was brought before Congress as part of the "fast track" process, Congress asserted its constitutional and "fast track" prerogatives and responded to U.S. business concerns by sending U.S. negotiators back to the bargaining table to improve the GATT provisions dealing with the anti-dumping code. Only after the negotiators were able to improve the dumping code did the Congress approve the agreement. Moreover, I would suggest that the numerous hearings held on this subject by both Houses of Congress since February have allowed considerable debate and fact-finding on the policy issues associated with this topic.
Many argue that if fast-track authority is granted, the Administration will have *carte blanche* to include or exclude anything it wants in the agreement. This is not the case. Despite its name, the fast-track process is not really all that fast. The notification, consultation, and approval processes provided in the fast-track mechanism give Congress ample opportunity to influence the outcome of the negotiations. We also believe that the Administration should and will consult closely with U.S. business, since an agreement not acceptable to the broad spectrum of American business is doomed to failure.

In the Chamber's view, such concerns about "fast track" are unfounded and belie concerns about the potential dislocation of American workers and companies from a free trade agreement between the United States, Canada and Mexico, in general, but specifically with Mexico. I will focus the balance of my remarks on the implications for American business, especially small business, of a free trade agreement with Mexico.

U.S. TRADE WITH MEXICO

Trade between Mexico and the United States exceeded $59 billion in 1990. Today, Mexico is our third largest market – behind Canada and Japan – while the United States is Mexico's largest market and Mexico's largest foreign investor, with $12 billion in investments. The opportunity is at hand to increase these figures several fold within a few years, thereby expanding employment and domestic prosperity in both countries, and equipping the two nations to compete globally. The removal of tariff and non-tariff barriers to trade and investment under an FTA will increase business opportunities on both sides of the border.

However, we should be under no illusions that these negotiations will follow the Canadian-U.S. Free Trade Agreement model. The United States and Canada had extensively integrated markets and a considerable exchange of investment capital long before they embarked on free trade negotiations. This is not the case between the United States, Canada, and Mexico.

GUIDING PRINCIPLES FOR FTA NEGOTIATIONS

In supporting FTA negotiations, the Chamber is not guaranteeing its ultimate support for the final negotiated agreement. We will only support a final agreement that is in the interest of the U.S. business community. Therefore, we have established certain principles that serve as criteria for an acceptable agreement. These are attached to my testimony, but I would like to summarize those principles:

- **The negotiations should be comprehensive.** In particular, we should negotiate agreements on tariffs, non-tariff barriers, agriculture, investment, services, intellectual property, and institutional mechanisms to improve bilateral economic relations.

  It has been our hope that these issues would be substantially advanced in the Uruguay Round of the GATT, thus facilitating the FTA negotiations. Should the current round not succeed, it should not jeopardize an FTA; it will only mean more work for our negotiators to conclude an FTA.

  However, we do not believe the FTA negotiations should be made the catch-all for every economic and non-economic issue between our two countries, as some have suggested. Other issues, such as environmental degradation, immigration, narcotics, and labor conditions, while important in our overall relationship, are already being addressed through mechanisms more appropriate than the FTA negotiations.

- The comprehensive nature of the FTA negotiations could present economic and political challenges for both governments. The negotiations should, therefore, also address appropriate transition periods based on **a program of staged, full-phased elimination of tariffs and non-tariff barriers consistent with GATT obligations**, meaning that reductions will be phased in over an agreed-upon period of time, and that all sectors of the economy can be covered in the agreement.

- We recognize that the liberalization process could create dislocations affecting labor as well as various industries and localities. Therefore the agreement should provide **temporary safeguards and adjustment assistance.** This would provide a mechanism for industries to seek temporary relief from sudden import surges resulting from the reduction of import barriers, and provide assistance for businesses and workers that suffer displacement. Existing U.S. law providing such safeguards and assistance should be used to the maximum extent possible. The agreement should also provide **effective dispute-settlement procedures and periodic reviews.**

- A Free Trade Agreement should establish clear **rules of origin**, which will provide verification that products are actually made or originate in the U.S. or Mexico. This will prevent third countries from acting as "free riders" in the agreement, thus ensuring that trade benefits accrue to all three countries.

We feel that these principles lay the groundwork for a successful, mutually beneficial agreement.

IMPLICATIONS FOR THE UNITED STATES

Some have expressed concern that an FTA will result in a transfer of U.S. jobs across the border as American firms take advantage of Mexico's lower wage levels. As many others have said before me, if wage costs were the principal determinant of business success, then Haiti would be an industrial powerhouse. Other factors, such as the skill and education level of the workers, their productivity, the available infrastructure, ease of getting inputs to a plant site, and the ease of operating in a different culture are also considered when deciding on a plant location. It is true that some American companies have found it necessary to move part of their operations to Mexico in order to remain competitive with imports in the U.S. market. But in many cases these companies must choose between moving a portion of their operations to Mexico or moving to other countries where wage rates are even lower. It is to the advantage of the U.S. economy that these jobs are given to Mexicans, who are large consumers of U.S.-produced goods (70 percent of all Mexican imports come from the United States). This way, the largest possible number of jobs are maintained in the United States, while at the same time new markets are created for U.S. exports, thus producing employment opportunities here at home.

Others have also argued that Mexican wage levels will be kept artificially low to attract foreign investment, thus depressing U.S. wage levels so that they are competitive with Mexico's. The experience of other countries has shown that this should not be the case. When Spain was integrated into the European Community, there were similar concerns that the wage levels of other EC countries would suffer. Not only has this not occurred, but wage levels in Spain rose 8.3% in 1987, 6.5% in 1988, and they continue to rise. At the same time, wage rates have risen in Germany, England and France. Moreover, development patterns in the emerging Asian newly-industrialized countries have shown that when low-wage countries expand their export markets, new jobs are created and wages increase. Korea is a good example. It was once one of the lowest-wage countries in Asia. Since Korean exports started to boom in the mid-1980s, wages increased 19.6% in 1988, 25% in 1989, and 18% in 1990. Finally, Mexican officials have said repeatedly that they do not seek sustained export success through low wages. Rather, the result of this agreement should be to increase the standard of living in all three countries. Creating new employment opportunities in Mexico – a country where 15% of every consumer dollar is spent on U.S.-produced goods – will help the United States increase its exports in consumer and capital goods.

The fact of the matter is that jobs in America depend in considerable degree on jobs in Mexico; we are increasingly interdependent. The key to maintaining high-wage jobs in the United States is to maintain technological leadership, develop a well-educated work force, and invest internationally to remain competitive. Workers earning one dollar per hour in Mexico will not replace U.S. workers making eight dollars per hour. Mexican labor will replace Indonesian, Malaysian, Thai, and Korean labor, as investors learn that Mexican labor is their equal in quality, productivity, and other respects. Having Mexico as a full partner in this region will benefit the United States.

IMPLICATIONS FOR SMALL BUSINESS

It is not well understood that among the potential beneficiaries of an FTA with Mexico is American small business. In the short term, few small firms will seek to invest in Mexico because they cannot afford the same level of risk as large corporations. However, in their role as suppliers and subcontractors to larger companies that do move into Mexico, small firms most certainly will benefit from an FTA. In the longer term, there are several aspects about a U.S. - Mexico FTA that are particularly attractive to American small business:

- **Expanded Small Business Direct Exports to Mexico:** Currently, Mexican tariffs and non-tariff barriers are significantly higher and more numerous than U.S. tariffs. An FTA that reduces or eliminates those barriers will make it easier for small U.S. producers to export to Mexico.

- **Increased Competitiveness:** Small business will have greater access to lower cost Mexican components for their products, making them more competitive both in the United States and internationally.

- **Increased Protection of Intellectual Property:** An FTA that improves Mexican protection of patents, copyrights, trade secrets and other proprietary information will reduce the risk of piracy to small business operating or selling in Mexico. This is of particular concern to small, high tech companies like my own.

- **Clear Ground Rules for Trade and Investment:** Most small companies cannot afford to take advantage of trade with Mexico due to the lack of standing of non-Mexican firms in Mexico's legal and regulatory environment. An FTA that locks in certain protections and rules for business and provides a mechanism for the timely resolution of disputes will reduce risk and allow small firms to compete on a level playing field.

HEMISPHERIC IMPLICATIONS

By including Canada in these free trade negotiations, we will create a North American economic unit with a combined output of $6 trillion, which is 25% greater than the European Community's output of $4.8 trillion. Such an arrangement should grant the U.S., Mexico and Canada -- individually and collectively -- increased influence for obtaining greater access to other markets.

This Free Trade Agreement is important for the success of the President's Enterprise for the Americas Initiative -- a new foreign policy for Latin America and the Caribbean. Rather than "throwing money" at the region's problems -- the historic U.S. response to difficulties faced by developing countries -- the President has proposed a mix of investment, trade, and debt relief incentives to encourage countries to adopt free market-oriented policies that can bring about long-term economic growth and political stability. Since this will not only benefit Latin America, but also expand U.S. export markets and investment opportunities, the Chamber supports this Initiative. A successfully concluded FTA with Mexico will serve as a model for the hemispheric free trade zone proposed in the President's Initiative.

CONCLUSION

Mr. Chairman, it is time for the Congress to look beyond the short term, and to do something that will help the competitive position of the U.S. far into the future. Clearly, this agreement will help Mexico and Canada as well. More importantly, this agreement can be beneficial to small and medium American business as well as larger U.S. firms. If the negotiations follow the principles we have set forth, we feel very strongly that the Chamber will be able to support the final agreement in the interest of the broad spectrum of our members.

ATTACHMENT

The U.S. Chamber of Commerce believes that a comprehensive FTA would benefit a broad base of our 180,000 members -- most of whom are small and medium-sized firms.

It is doubtful that these negotiations will result in a simple copy of the Canadian-U.S. Free Trade Agreement. The U.S. and Canada had extensively integrated markets and exchange of investment long before our FTA. This is not so between the U.S. and Mexico. Therefore, we feel that all three governments should consult closely with their business communities as negotiations proceed.

In supporting negotiations, the Chamber does not guarantee ultimate support for the FTA. We will only support an agreement that is in the interest of the entire U.S. business community. Therefore, we established the following principles that serve as criteria for an acceptable agreement:

- Be comprehensive, with a view to going beyond the Uruguay Round agreements;
- Cover tariffs, non-tariff barriers (NTBs), agriculture, investment, services, and intellectual property protection;
- Ensure that trade benefits accrue to both the U.S. and Mexico. Specifically, to avoid third-country components from being processed in Mexico, stamped "Made in Mexico", and exported to the U.S., rules of origin must be established;
- Allow temporary safeguards and measures to deal with serious injury to industries, labor and/or localities resulting from the liberalization process;
- Include a well-defined process for removing technical and administrative barriers to trade and investment that are identified during the operation of the FTA;
- Establish a program of staged, full-phased reductions of tariffs and NTBs, consistent with GATT obligations;
- Provide effective dispute settlement procedures;
- Establish periodic reviews of the FTA; and,
- Lay the groundwork for a single market encompassing the U.S., Mexico and Canada, which individually and collectively, will have more influence for obtaining greater access to other markets in the world.

Mr. MOODY. Thank you very much.
Mr. Mullaney.

STATEMENT OF JOSEPH E. MULLANEY, VICE CHAIRMAN OF THE BOARD, THE GILLETTE CO., ON BEHALF OF THE EMERGENCY COMMITTEE FOR AMERICAN TRADE [ECAT]

Mr. MULLANEY. Thank you, Mr. Moody. My name is Joe Mullaney and I am vice chairman of the board of the Gillette Co. Gillette is an international consumer products firm which employs 30,000-plus people worldwide. We do business around the world. I am here today to testify on behalf of the 62 members of the Emergency Committee for American Trade, better known as ECAT. Our testimony is in support of the President's request for a 2-year extension of the fast-track legislative procedure.

The members of ECAT are large U.S. firms with annual worldwide sales of over $1 trillion and with over 5 million employees. They are among the largest U.S. exporters, and they count heavily on access to foreign markets for their corporate well-being and for the jobs of tens of thousands of their employees.

On behalf of ECAT, I want to acknowledge our appreciation for the work of this committee on trade matters.

It is a particular pleasure for me to be here today. In 1970 and 1971 I worked with this committee while I served as general counsel of the Office of the Special Trade Representative. The Special Trade Representative at that time was Carl Gilbert, the former chairman of Gillette.

Congressman Moody, I have submitted to the committee a complete statement of ECAT's position in support of the President's request. I have also submitted a summary of that position. And while I was going to repeat the highlights of those materials with you, since I am on the record and since I agree with the statements that have preceded me, I thought I might instead take a few moments to give you a somewhat different picture of the employment situation in Mexico and what companies like Gillette and other ECAT companies are doing in Mexico by way of employment and by way of environmental and safety actions.

Gillette has something over 2,000 employees in Mexico. There are three principal facilities which are unionized. The average wages of our employees are well in excess of the legal minimums, and well in excess of the figures you have heard today. I heard figures of $1.25 a day or $6 a day. Our workers are paid, on the average, $240, $250 a month; $50, $60 a week, which by U.S. standards does not sound great. By Mexican standards it is very good pay indeed. Gillette work weeks in Mexico are the traditional U.S. work weeks; 5 days a week, 8 hours a day on average.

In addition, things like holidays, vacation days, Christmas bonuses, in all of those cases we are well in excess of what is legally required in Mexico, usually on the average of two times whatever is required there.

So the labor picture that we in Gillette have there is quite different from what you heard described earlier. And while we have not checked with all of our ECAT members, I believe you would find

that the kind of companies we have as members would have similar employment practices.

In the environmental and safety area, Gillette, as again, I am sure the other ECAT members, has a policy of adopting worldwide the same safety and pollution policies that we adopt in the United States. We have a health, environment and safety policy and a company pollution prevention program. Our people are given the funds and training to do their jobs in these areas and the facilities are periodically audited by our corporate safety and environmental affairs manager.

To mention specifically some of the projects in Mexico which will give you some flavor of the type of work we have done there, we have converted all of our aerosols from chlorofluorocarbons to hydrocarbons well ahead of the requirements of the Montreal Protocol. Our hydrocarbon filling and storage systems meet U.S. and Gillette safety standards. Our noise suppression levels in Mexico are the same as in the United States. Our air pollution abatement programs and systems are in place. And in many other ways we have adopted and put in place in Mexico the same kind of safety and environmental features that we have in the U.S.

I thought you might appreciate that fact and get a somewhat different view of the other testimony you heard this morning. Thank you very much.

[The prepared statement follows:]

Emergency Committee for American Trade 1211 Connecticut Ave Washington DC 20036 (202) 659-5147

STATEMENT OF JOSEPH E. MULLANEY, VICE CHAIRMAN OF THE BOARD,
THE GILLETTE COMPANY, ON BEHALF OF THE EMERGENCY COMMITTEE
FOR AMERICAN TRADE, BEFORE THE COMMITTEE ON WAYS AND MEANS,
ON THE PRESIDENT'S REQUEST FOR
EXTENSION OF FAST TRACK TRADE AGREEMENT IMPLEMENTING AUTHORITY

Thursday, April 11, 1991

Good Morning Mr. Chairman and members of the Ways and Means Committee. I am Joe Mullaney and am Vice Chairman of the Board of the Gillette Company which is headquartered in Boston, Massachusetts. Gillette is an international consumer products firm whose major lines include blades and razors, toiletries and cosmetics, stationery products, Braun electric shavers and small appliances and Oral-B oral care products.

Gillette employs 30,400 persons. We manufacture our products at 48 facilities in 25 countries, and distribute our products in over 200 countries and territories. Our net sales last year totaled $4.3 billion.

I am here today to testify on behalf of the 62 members of the Emergency Committee for American Trade (ECAT) in support of the President's request for a two-year extension of the fast-track legislative procedure for Congress' consideration of trade agreements.

The members of ECAT are large U.S. firms with annual worldwide sales of over $1 trillion, and with over 5 million employees. They are among the largest U.S. exporters, and they count heavily on access to foreign markets for their corporate well-being and for the jobs of tens of thousands of their employees.

It is a particular pleasure for me to be here with you today. In 1970 and 1971 I had the good fortune of working with the Ways and Means Committee as General Counsel of the Office of the United States Trade Representative. The Special Trade Representative at the time was the late Carl Gilbert, a former Chairman of Gillette. I further worked with the Committee and with other committees of both the House and Senate after leaving USTR when I served as General Counsel of the President's Cost of Living Council in 1971 and 1972.

In my days with the USTR — it was then called the Office of the Special Representative for Trade Negotiations — foreign trade was a less complex area to deal with than it is today. The Kennedy Round of Trade Negotiations had been concluded in 1967, and thought was being given to seeking a new grant of trade negotiating authority from the Congress to conduct a new round of trade negotiations. The subsequent Trade Act of 1974 led to the so-called Tokyo Round of trade negotiations in the late 1970's.

It is noteworthy that the fast-track legislative procedure was developed as part of the Trade Act of 1974 in recognition of the fact that post-Kennedy Round trade negotiations would no longer deal principally with tariffs but rather with non-tariff barriers to trade, most of which were rooted in law and implementing regulations. Since only the Congress can enact and amend laws, it was necessary to develop a mechanism whereby the Congress would not only authorize and establish the framework for the President to enter into trade negotiations with our trading partners, but also to guarantee that the resultant trade agreements would in fact be considered by the Congress in a timely fashion and without amendments that would frustrate the delicate balance of benefits and concessions represented in the trade agreements themselves.

The mechanism that was developed in 1974 was the fast-track procedure. As an outside observer, it seems to me to have worked very well. With it, and with the necessary Congressional grants of trade negotiating authority to the President, the Tokyo Round of GATT negotiations was undertaken and the implementing legislation passed by the Congress. So too were the negotiations and implementing legislation for the U.S.-Israel and U.S.-Canada free trade agreements. Each of these three trade agreements appears to have served the U.S.

national interest very well.

The members of ECAT recognize that the fast track constitutes a delicate balance in the conduct of U.S. trade policy between the Congress and the President. It is a necessary balance, however, for without the fast-track procedure, it is hard to conceive of the United States being able to participate in any kind of international, regional, or bilateral trade negotiations. Thus, the new trading arrangements that are being put into place around the world -- such as in Europe in EC '92, and the economic and political accords between Western and Eastern Europe -- would be accomplished without the United States at the negotiating tables.

Many of our trading partners would welcome such a result since it would leave them freer than under the present GATT system -- which very much depends on U.S. leadership -- to put into place either national or regional trade barriers against the United States and others. It would further relieve many of them from the increasingly successful pressures from the United States to further open their markets to U.S. exports.

When Congress renewed the fast track in the Omnibus Trade Act of 1988, it did so in conjunction with other legislative provisions that spell out very specific Congressionally mandated negotiating objectives to be achieved in the current Uruguay Round of trade negotiations. These provisions, together with a series of existing consultative arrangements with the Executive, make Congress very much a partner in the conduct and implementation of U.S. trade policy.

The fast track itself is at the heart of the partnership. At the outset of any proposed bilateral trade negotiation it requires Congressional consideration of the President's intent to enter into a trade negotiation, through the 60-day notification of intent requirement. By requiring a 90-day notification of intent to sign a trade agreement, bilateral or multilateral, toward the end of the negotiations, the Congress has provided itself time to examine a prospective agreement and to provide the President with its views on the prospective agreement before it is concluded.

The fast-track procedure provides another period of 90 days for Congressional consideration of the implementing legislation for the trade agreement after it has been signed by the President and submitted to the Congress. Even before the implementing bill itself is submitted to the Congress by the President, there is the opportunity for consultation with interested committees of the Congress. The drafting of the bill thus provides an opportunity for the views of the Congress to be accommodated to the extent that the accommodation does not thwart the basic provisions of the trade agreement itself.

The members of ECAT worked hard for passage of the 1988 Omnibus Trade Act, and are supportive of the Uruguay Round of trade negotiations and the prospective negotiations with Mexico and Canada for a North American free trade area. Without extension of the fast track, it is hard to conceive of either of these negotiations being concluded.

The Uruguay Round holds much promise for the needed development of GATT rules for the so-called new GATT areas of intellectual property protection, foreign investment and services. In varying degrees, these are all very important areas for our members.

Much remains to be done if agreements in these areas are successfully to be concluded. Without the fast track, however, the negotiations will be aborted, leaving U.S. business relatively unprotected from those who, for example, pirate our patents and copyrights or require stringent and uneconomic performance requirements as a condition of doing business. These requirements and similar ones for the establishment of services are onerous. The Uruguay Round promises rules and relief in these and other areas, as well as improved market access to vital foreign markets for U.S. exports.

The proposed free trade negotiations with Mexico and Canada are also important to the members of ECAT. To abort the negotiations now

through disapproving the President's request for extension of the fast track would upset U.S. economic relations with both countries, although far more so for U.S. trade with Mexico in light of the existing U.S.-Canada Free Trade Agreement.

The negotiations for a free trade arrangement with Mexico pose several difficult issues that were not present in the earlier free trade negotiations with Canada. Unlike the negotiations with Canada, for example, which shares a common legal and political system, as well as approximate cost parity with the United States, the negotiations with Mexico start with vastly different economic, legal and political systems. Statism has long characterized Mexico's economy.

Mexico's legal system differs from that of the United States and thereby represents an obstacle to the implementation of the prospective free trade agreement. The Mexican legal and judicial system appears to offer less certainty than the U.S. system, thereby making enforcement and dispute settlement measures central to the agreement.

We believe it critically important, therefore, that these legal, as well as economic and political, differences be recognized and effectively dealt with throughout the free trade negotiations. Effective enforcement and adjudicatory mechanisms will be essential in order to avoid unnecessary disputes and the possible nullification of assumed benefits.

Another very critical issue for the free trade pact negotiators will be the development of appropriate transitional rules to allow adequate time for workers and for firms to adjust to the new economic circumstances that will follow the proposed free trade agreement.

We understand and sympathize with the concern of organized labor about possible job dislocations that might flow from a free trade agreement with Mexico. There undoubtedly will be some job dislocation here in the United States. Free trade agreements are not risk-free for either firms or their workers.

The only official study that we are aware of as to the likely effects on the economies and labor markets of the United States and Mexico that might flow from the proposed trade agreement is that of the International Trade Commission. It concludes that while the overall employment impact in the United States is expected to be very minimal, there undoubtedly will be localized job losses -- as there also will be job gains.

In order to help cushion any job dislocations and to help adversely impacted workers find new jobs, we would recommend that special priority be given, within the framework of federal job programs, to any whose jobs are lost as a result of the proposed free trade agreement.

We would also note that some domestic job creation can be expected in the United States through increases in U.S. exports to Mexico that will follow implementation of the agreement. The steps that Mexico has taken in recent years to liberalize access to its market already have led to great increases in U.S. exports to Mexico.

The prospective free trade agreement will also stimulate growth in Mexico's economy as the private sector is strengthened. This will lead to more jobs in Mexico, thus decreasing the incentive for Mexican workers to emigrate into the U.S. job market.

We in ECAT also understand the concern expressed by many about the environment and Mexico. In researching this issue, we have been pleasantly surprised with the content and thrust of recent measures enacted in Mexico to protect and improve the Mexican environment.

As with most other countries of the world, Mexico has a long way to go before catching up with the United States environmental standards and their implementation. Nonetheless, Mexico is on the threshold through its new environmental laws of making the country a cleaner and healthier place for its citizens. We in Gillette together with other

members of ECAT find this is a most encouraging development since we like doing business in a healthy environment.

A major problem in the environmental area for Mexico is a financial one. At present, there appears to be a shortage of necessary funds for implementation of the new standards, and for construction of needed new facilities. We hope that the necessary funds will somehow be made available, perhaps in part through external loans.

The labor and environmental issues that are being discussed in regard to Mexico traditionally have been viewed as inappropriate subjects for inclusion as part of trade agreement negotiations. However, the prospective trade agreement negotiations do provide a window of opportunity for bilateral discussions on these issues between Mexico and the United States. These discussions could be concurrent with the trade negotiations themselves. It should not be necessary, however, that any understandings be arrived at in the exact same time frame. But it is important to the interests of both countries that these issues be discussed and appropriate solutions sought. For those who want to see bilateral improvements on the labor and environmental areas, it is important that the fast track be extended for, without the extension, there is little prospect for negotiations with Mexico on such issues as labor standards and the environment for some time to come.

Before concluding my statement, I would like to observe that the Administration of President Salinas offers a unique opportunity for Mexico and the United States to improve substantially their economic relations. Without the prospective free trade agreement, it is possible that the economic reforms already put into place in Mexico by President Salinas and his Administration could be threatened by those in Mexico who are opposed to them. A free trade agreement with the United States, on the other hand, would establish a legal framework of Mexican commitments that would make such a threat far less realizable.

In testimony before this Committee on June 14, 1990, ECAT expressed its support for negotiations for a free trade agreement with Mexico. We reiterate that support today.

While we support negotiations, we cannot forecast whether we would support any negotiated agreement. To gain our support, it would have to include a number of transitional rules to ease adjustments for workers and firms to the new circumstances. It would also have to include, among other things, adequate rules of origin to insure that the common open border would not be used unfairly by the firms of other countries as an export platform into the U.S. market. It would also have to include adequate measures to protect intellectual property rights, the right to invest and the right to establish business and service operations in Mexico without onerous government conditions.

You in the Congress also cannot be expected to support conjectural agreements such as the Uruguay Round and the prospective agreements with Mexico and Canada without participation, consultation and full knowledge of their contents.

We do urge you, however, to support extension of the fast-track procedure so as to enable the United States to continue negotiations for a successful conclusion of the Uruguay Round, and to initiate negotiations with Mexico and Canada for a North American Free Trade Area. These are vital negotiations for the United States. They offer the promise of improving global and regional conditions that will enhance the ability of the United States to become a more effective global competitor.

Mr. MOODY. Thank you very much. Mr. Mullaney, before I ask the panel generally, are your Gillette factories on the maquiladora strip?

Mr. MULLANEY. No, they are not, they are in Mexico City.

Mr. MOODY. Because the ones along there are quite different?

Mr. MULLANEY. That is correct.

Mr. MOODY. And of course, you know that obviously a lot of other Mexican-owned companies are not observing the levels that you are observing.

Mr. MULLANEY. I just did not want you to think that all of us who do business there have the same record.

Mr. MOODY. I cannot speak for them, but I think the organized labor representatives were pointing out that we would be confronting a business climate which does not have the same environmental standards that we have in general, although obviously companies like yourself would be an exception to that.

Mr. MULLANEY. We do not do business in the maquiladora area, but I do not want to condemn those who do there and I know that there is a lot of improvement that should be made there. I have been there. I have been to Mexico many, many times, and the difference is this. For many, many Mexicans—thousands of them—the difference between having no job at all and living in the appalling conditions that they do and making some kind of money, some members of the family being able to make something, is enormous to them. As bad as it seems to us, and it is difficult for us to deal with it, it makes a huge difference.

Mr. MOODY. No question about that. On the other hand, if we were to suddenly annex—this is not being proposed obviously, but if we were suddenly to annex Mexico or eliminate the border between Mexico and the United States, the excess labor competing for those jobs would certainly drive down average labor in what is now the United States. I mean, it is simple economics—supply and demand. No question it would improve Mexican labor conditions and wage conditions. But if you were to suddenly consider this one big pool of North American labor would you deny that that would reduce wages on the U.S. side?

Mr. MULLANEY. I would deny it only on the strength—the only study I have seen is the study that has been referred to several times this morning which says—and you can read it different ways—that there would not be dramatic impacts one way or the other. We firmly believe that Mexico, with 80 million people growing to 100 million very soon, will develop, and under a free-trade agreement will become a very viable, growing, dynamic country. It already is in many respects. But it will become all the more so.

Mr. MOODY. But with a wage differential of 10 to 1 still, it is going to take quite a while before that would come up to the levels. But anyway, let us not debate that. Let me just ask each one of you quickly, do you think issues like the environment should be handled—and I think it was very responsible statements on everyone's part—in separate documents on some parallel basis? Is that the consensus of what you are saying? Mr. Whitmore, do you want to start?

Mr. WHITMORE. On a parallel basis, right. One way to prevent us from having a trade agreement is to weigh it down with so many

things and so much complexity that nothing will happen. We do not see any problem with doing things on a parallel basis. As I indicated in my statement, we have been to Mexico. They seem to be prepared to make commitments that could be built into parallel activities. But we would not like to see them built specifically into a trade agreement.

This trade agreement, in order to get a good one, is going to be quite complex as it is to get in intellectual property, rules of origin, all these other things. But it could be done on a parallel basis. I was just in the White House Tuesday. We were assured there when we asked the same type of question that you have asked, that the President and Carla Hills are prepared to respond to your chairman's letter recently, in a timely fashion, to give some response to those specific issues.

Mr. MOODY. Would not our leverage be maximized though if they were in the same document, or at least parallel and linked like Siamese twins? I mean, one would not be agreed unless the other was agreed. Why would we want to say that we will agree with the FTA and then, by the way, on a separate basis, unconnected with no conditionality, we also want to negotiate some higher cost structure for your companies by insisting on environmental and OSHA and other standards? How could we expect our leverage to be effective if we detach them totally?

Mr. WHITMORE. This is what I meant by parallel.

Mr. MOODY. So you would condition them but not put them in the same document?

Mr. WHITMORE. Not put in the same document.

Mr. MOODY. But you do not object to conditionality?

Mr. WHITMORE. Within reason, that is right. The issue, for example, on the environment which you allude to is a matter of enforcement. It is not a matter of saying, pass some laws. The laws exist. Their laws are essentially as strong as our laws. It is a question of the application of those laws, having the resources to put inspectors in.

The Wall Street Journal article that I referred to said the problem is the number of people out applying the laws for whatever source. How you build those into the agreement is not clear to me. But the fact that they must make progress—the statement probably ought to be included that any new jobs must meet current laws, as opposed to having them set aside for some special reason. But that is what I mean by parallel.

Mr. MOODY. But why would it be less important to put environmental issues in, let us say, than intellectual property? They both affect the level playing field for competitiveness. If we do not put them in they probably will not be enforced. Why not build them in? They have economic impact just as great as the rules of origin, intellectual property, things that you would like in the document. And I agree with you, they should be.

They make no less or no more impact on competitiveness than the worker health safety and OSHA standards. Why would you want to separate those out? Is complexity the only reason? You say it would make the document complex. Anyone can answer this question. I do not want it just with Mr. Whitmore. Anyone else have an opinion on it?

Mr. HARTLEY. I think our position is completely in accord with Mr. Whitmore's answer to the question. That is, from the NAM perspective, that the environmental issue is an important issue, but as has been pointed out, there is a set of laws on the books in Mexico which are very comprehensive. So it becomes a question of enforcement, just as any other law needs to be enforced. We believe that U.S. manufacturers will act responsibly. They are going to obey the laws in most countries in which they operate. Certainly speaking for my own company, I am sure speaking for all of these companies, we would expect to live with that.

It does and has the potential of putting us at some competitive disadvantage in the short term. But the assumption is that in the longer term there will be a set of enforcement actions that will lead to parity in this area and will, in so doing, improve the environmental situation in Mexico.

If I may just add to that——

Mr. MOODY. Just let me respond. I do not want to be belaboring this, but my assumption is that each of these items, be it intellectual property, which is more typically inside, or something that is not typically inside like environment, both of them have economic impacts. They both affect competitiveness and they both have enforcement problems. Intellectual property also has to be enforced.

Mr. HARTLEY. Right, but we do not have——

Mr. MOODY. So because something is difficult to enforce does not mean you do not put it in the document. You could set up a dispute mechanism on the environmental issues just as you might on intellectual property. But why would you not want to put one set in but you would the other? Based on the premise that they both have competitiveness and balanced playing field impacts, why would you not want to put them all in?

Mr. HARTLEY. I think the distinction I would make there is that in the case of the environment there are laws in existence which we do not take exception to. I think we think they are, in general, the kind of laws which we in this country can feel comfortable with. In the case of many of these other issues, there is no agreement and there is no law. In rules of origin there is a difference of opinion in many cases, and in intellectual property there is a difference of opinion with regard to how those should be conducted. So there is a need to get an agreement. There is already an agreement in the case——

Mr. MOODY. So in one case there are some laws on the books and we need enforcement. In the other case, you still need the laws. That is the distinction you are drawing?

Mr. HARTLEY. Yes.

Mr. MOODY. Ms. Hettinga.

Ms. HETTINGA. I was going to say that, yes, they could be under an umbrella, but I am in agreement that they should run on a parallel basis because maybe some of them will not be able to be triggered into action all at the same time. For instance, as has been previously mentioned, the infrastructure of Mexico has to be not only rebuilt but some of it formulated for the first time in some of these areas. So perhaps just on that basis it might not be possible to be all triggered at once. It would seem like it would be less complicated to run them in a parallel basis, but in essence under an

umbrella but have very specific dates as to when this would all be finished.

Mr. MOODY. But you can see the concern of people who want to make sure these do not get left out by putting some parallel process out there that causes us to lose our leverage when we negotiate the main document.

Ms. HETTINGA. Yes, understandable, and that could be triggered back to some mechanism in some way. That is why we need the fast-track authority to be able to react to some of these and then go back. And of course, Congress can have its impact on them as well, too. It is a matter of communication.

Mr. MOODY. Right. Let me ask any of you if you would agree there is a difference between the necessity for fast track with respect to the GATT; let us say 112 nations out there—I do not know exactly what the number is but it is over 100—on the one hand where it would be totally impractical if Congress says, we like this package but we want you to change this one item or these three items. To go back to 112 nations and renegotiate that, that is impractical. We understand that. I mean, I think that is reasonable.

But why is that argument obtained when you are dealing 1 on 1 with a single country? Why is the case as compelling for fast track if you are 1 on 1 as it would be if you have a 1 on 112? Mr. Whitmore? Anybody?

Mr. WHITMORE. I think there is less complexity in 1 on 1 than there is in a lot, but the basic premise, that you have got two negotiators sitting down who are negotiating an agreement, coming to an agreement, and then saying, we have a deal. And then coming back and saying, now we are going to change it for 535 districts because of the individual problems of an individual district, I just think that will not happen.

I think there will not be a negotiation. I think the Mexicans will say, thank you, we just do not trust your United States system to make that agreement meaningful. We will have to find some other way to do it. I think it is just simply not practical. The Mexicans have told us they think it is not practical. Our negotiators told us it is not practical. We believe it is not practical. It is not the way we negotiate contracts.

I heard Mr. Bieber say he goes and—I frankly do not believe what he says. I must say that I am not an expert on union contract negotiations, but I do not believe I have ever seen a contract negotiated between two parties who then took that contract back to their constituents and said, now you change anything you want and we will get you that agreement. I think that does not happen. It does not happen in the world I work in, 1 on 1.

Mr. MOODY. But do you not have to go back and forth? If you said we agree that everything you did was great, but there is one thing we just cannot take. Please go tell your negotiating partner. I mean, subject to final agreement, you tell him you have got to go back and sell it to your board, do you not?

Mr. WHITMORE. We tell them they have got to come to us and agree to it. And in general, in general, those are take it or leave it agreements. Sometimes we go back and start over again, just as what would happen here. If we get an agreement, bring it to you,

you say now, they will go back and renegotiate it. But when they go back and renegotiate, they will start over again.

Mr. MOODY. So you think we should retain the up-or-down, no amendment approach entirely? Even though we are 1 on 1 with one single country?

Mr. WHITMORE. Yes, sir.

Mr. MULLANEY. The complexity of the number of parties may be reduced, but the complexity of the number of issues, especially if you consider the negotiation with Mexico, may be as great as if you had any number of parties involved.

To get into a negotiation with some assurance that within a reasonable period of time, as you make your various tradeoffs, as you give this and you take that and you give up this because you think you have got that, only to find out sometime later that that is not the way it is going to be, can be an awful waste of time and commitments and energy, unless you have that up front assurance.

Mr. MOODY. I want to include my colleagues, Mr. Grandy.

Mr. GRANDY. Thank you, Mr. Chairman.

I think it is important to remember that, although you have all made compelling arguments for the policy of a North American Free-Trade Agreement and successful resolution of the GATT rounds, this discussion before us right now involves more procedure than policy and the fast track is a procedure that we will be voting on.

I want to make sure that I heard you right, because the arguments that we will have when we bring this matter to the floor will be whether or not one, to divide the question, whether or not we should vote on GATT. And if so doing, we should demand perhaps a 6-month timeframe for GATT, as opposed to a 2-year time frame for the North American Free-Trade Agreement.

I would like to get your impressions of that. Should we divide the question? Before you answer, I would say that one of the arguments that is made, from a lot of people that have followed the GATT negotiations, is why should we allow the Europeans any more time to perfect the stalling techniques which they have mastered so effectively up to this point?

As somebody who represents an agricultural area, this is an argument that is raised quite a bit out in our country, and it is a compelling one. I have my own answers for it, but I would like to hear what yours are, as CEO's, as to why we should or should not divide the question and have two tracks of different lengths. Why do we not start with you, Mr. Hartley?

Mr. HARTLEY. I think to me the very compelling argument, Mr. Grandy, would be that it is in the best interest of U.S. industry to have an agreement. Given that, although I agree with you that it is disappointing that we spent a lot of years in negotiation and we are not able to bring the Uruguay round to a successful conclusion, we have not given up. I think that the NAM has worked very hard to reinitiate the dialog and have been successful in that with our counterparts around the world, because I think a lot of our manufacturing counterparts do understand the value of having an improved agreement for world trade.

So I think the short answer to your question is that it is in our best interest. A point that I made in my comments, and I would

like to reinforce here, is that the United States is the most open country in the world with regard to trade. So in general, in most of these negotiations, we are looking for improvements in our relationship with our trading partners. Reduction in the tariffs, the barriers, the intellectual property treatment, all of the things that are to us second nature do not exist in many cases with our trading partners.

So we have a great deal to gain, in terms of our export objectives, in reaching these agreements. I agree with you, it's frustrating. It would be desireable if we had reached the deadline and been able to vote up or down on a Uruguay round agreement. We were not able to do so.

With regard to the Mexican Free-Trade Agreement—and I would like to point out, the question was raised with regard to why cannot two people reach agreement—there is a third party involved, and we should not forget our Canadian friends here, in that they are also involved in this negotiation, though I grant you that the primary discussion has been initiated by and will be between the United States and Mexico.

In the same case, it is in United States manufacturing's best interest to have an improved trading relationship with Mexico. Again, our market is far more open to Mexican exports to this country than the converse is true. Our rules of investment and our rules of origin, and a lot of other things, are far more open than is the case in the case of Mexico.

So we have something to gain in this. This is not something that we want to do simply for the benefit of the world economy.

Mr. GRANDY. But just to reiterate the original question, I am hearing you say you do not want to divide GATT from the North American Free-Trade Agreement. You want, as the President has requested, a vote on the package?

Mr. HARTLEY. Yes.

Mr. GRANDY. Ms. Hettinga.

Ms. HETTINGA. We would prefer not to divide GATT from the FTA, however should the GATT agreements not come to fruition, the FTA should continue on.

Your comment about the stalling techniques of the Europeans is much appreciated, because I also come from that farming community. The Europeans, like the Japanese—and I am not sure who took their lessons from one another—but their tactics are to wear us down. Of course, they try to do the same thing when we are negotiating on a business deal.

But you go through the Japanese countryside, and their farms—well, in Iowa, we would refer to those as gardens. But there is a very protectionistic thing, and I believe the other day that we just got the right to import oranges into Japan. The average Japanese orange, for instance, costs one American dollar.

We would very much like to see the fast track tied into both of them, but as I say if the GATT does not come through—and I think that 6 months is being very optimistic on the FTA. This is not a thing that is going to be done in 1 year or 2 years. We should expect that it is going to be tied out over 5 years, because not only just the procedures and the policy is set there, then after that is

finally agreed upon, the real work is really going to begin to match up standards, to qualify standards and that sort of thing.

We were much closer, we thought, on standards with Canada. We are not. I happened to speak 2 days ago with a person from the United States side who is commissioned with the challenge of matching the electrical standards with Canada's. And he said, we are so far apart, it is unbelievable. So that gives you some idea of what EC 1992 is about, also.

Even though that is going to start in another year, they are still a long way from having their act put together.

Mr. GRANDY. Mr. Mullaney.

Mr. MULLANEY. I think however frustrating these time limits and negotiations can be, and how much they can drag out, the President should have the time to negotiate what he believes would be the best agreement he can get. There is no magic.

In the Uruguay round that has been going on for so long, if we still can get a deal—and that remains to be seen because who knows what they will come back with—I think we should give the time, and I think we should let the President take it.

This trade negotiation, which I have been involved in, is very much like riding a bike without a seat. It is a pain in the butt, but sometimes the only way to get there. You just have to give it the time it takes to get there. So I would be in favor of giving the extended time.

Mr. GRANDY. And keeping the two agreements?

Mr. MULLANEY. And keeping the two agreements, and following the same procedure and sticking with it.

Mr. GRANDY. Mr. Whitmore.

Mr. WHITMORE. I would just simply say that we would support keeping the two together. We would support giving the administration the authorization to negotiate comprehensive agreements with Mexico and with other locations, GATT round, and see what we can get.

If we were to say to Mexico, we will not grant fast track for that negotiation, we believe those negotiations would simply stop and we would not get the benefit without that authority. Therefore, giving it procedural authority to go ahead and negotiate what they can gives them the opportunity to create something.

There is no free-trade agreement between the United States and Mexico now. There are no negotiations going on at all. There are discussions but no negotiations. This will be, in fact, the triggering mechanism to create the negotiations that create something we can then discuss in detail.

So we would like to try not to separate them. There is no benefit in separating them. There are some disadvantages in not just giving the administration general authority to continue to negotiate trade deals on a comprehensive basis.

Mr. GRANDY. Let me just say I agree with you, and I do not support adding conditional amendments to the agreement because, in a sense, then Congress is negotiating the agreement before the President even gets his hands on it.

Let me ask you one more question, not as members of your various panels and advocacy groups, but as CEO's, because this is a question that has been raised time and time again by opponents of

the free trade agreement. It has been basically that this agreement will ultimately erode the skill base in the United States because it will allow companies to move on the other side of the border and take advantage of short-term cheap labor.

But let me ask you this, and I know you do not believe that to be true in the long run, but it is true that this country is facing an enormous problem with maintaining and improving a work force that needs to become a skill force in the very near future, and certainly by the year 2000.

We know the work force is changing. We know that our ability, educationally to replenish that skill force is diminishing. It seems to me that your businesses have a role to play in creating that skill force, through providing whatever educational benefits you might have to your work force, and perhaps even to the community where you base your plants and companies.

Can I ask you individually what you are doing to address this problem as corporate leaders, to improve the skill force of the United States so that the argument that we have when we address a free trade agreement can be countered by you as advocates of a greater standard of education and skill in the United States?

Mr. Whitmore, I will start with you, as the head of Kodak.

Mr. WHITMORE. Congressman, you are going to get a touch of emotion, if you will, around this one. Some of us are putting in more energy and time on that particular subject, that is the quality of education in this country, than we have got to spend. We have got companies to run, and I think it is in the interest of the country for us to do those well and create value.

But the Business Roundtable, for example, has just gone out and said we make a 10-year commitment to work in every single State in the Union, to work with every single Governor to try to improve the quality of education. I would have to say that some of us are a touch frustrated about how difficult this is to state the case and assume that people will take it responsibly and try to do something about it. There are funding problems and all kinds of problems.

In Kodak's case, we have made a 10-year commitment in the communities in which we live, Rochester, NY; Kingsport, TN; Long View, TX; and a number of other smaller communities to in fact be actively engaged in improving the quality of education, because this question of how do we get a prepared work force in the future, particularly for inner city kids, predominantly minority kids, is a very serious problem. We have a major, major problem we need to make progress against.

And I do not know of any major business organization who is not participating in making that happen, both in the communities in which they work, in the States in which they live. And the Business Roundtable, headed by John Akers of IBM is trying to interface, including at the Federal level, to see what can be done there. The primary action is at the State and local level, however, and it's a major issue.

Mr. GRANDY. Mr. Mullaney, what is Gillette doing?

Mr. MULLANEY. Gillette is actively involved in Boston. We have a school partnership program. We have a school support program. We have in-house training programs with high school kids. We have any number of active programs. The whole business commu-

nity in Boston is very actively involved with the schools. We are involved with State programs. We contribute and support education at all levels. We are just actively involved.

And most business is, because it is essential to get their next generation of skilled labor you are talking about.

Mr. GRANDY. Mr. Hartley, I am going to skip to you, first, because Harris is considerably larger than Hettinga Equipment and I would like to hear you. A minute each. You first, and then Ms. Hettinga.

Mr. HARTLEY. That is a question, of course, as with Mr. Whitmore, of great interest to all of us, particularly a company such as ours which is very heavily involved in the technological side of the business. It is in our own self-interest, both in terms of finding the skilled employees, but also in being able to attract the best and the brightest young men and women to come to our company and raise their families in our locales and that sort of thing.

So we have a program that does things like bring in teachers from all over the United States and let them address the local teaching community in our areas, to try to enhance the interest in and level of concern of education. We have a lot of sponsored programs of that type.

Mr. GRANDY. Ms. Hettinga.

Ms. HETTINGA. First, the U.S. Chamber of Commerce has a Center for Work Preparation and all of us have been very heavily involved with that. We work with local chambers and 16,000 different school boards.

Hettinga Equipment itself has, in our company policy, and we encourage this very heavily and we have 20 percent of our people participate in this on an average. Anyone who wants to go back to school, whether it is a vocational area school or university, the full tuition is paid by our company. Also, we bring in for specialized on-the-job training, we bring in instructors.

Mr. GRANDY. Thank you.

Chairman ROSTENKOWSKI [presiding]. Mr. Levin.

Mr. LEVIN. Thank you, Mr. Chairman. Just two quick questions, one relating to wage differentials. I am sorry Mr. Whitmore had to leave, because he and you, Mr. Mullaney and Mr. Hartley, tried to minimize the issue of wage differential; Mr. Whitmore by talking about it reflecting a huge productivity gap that workers and manufacturing are not receiving the lower wage. And Mr. Mullaney, you talked about wages in your plants. Mr. Hartley, you said we see no reason to believe that there would be an adverse impact on U.S. wages.

Maybe there is not time to comment. I just want to read to you two sentences from a very conservative economist. I do not think we should pretend to weigh the issues. We ought to face them. I admire your testimony and your internationalist perspective, but we have to look at the national interest within that context.

This gentleman, who has just written a book on GATT, Jagdish Bhagwati; who is a very free market economist, says we are talking about 50-cent-an-hour wages—let us say they are $1 or $1.25—compared with $12 or so up here. The closest thing to this which we have any experience with was when Spain and Portugal joined the European Community and that was a differential of 1 to 4 and not

1 to 25. I can understand a lot of the worry about what might happen.

Do you think this is off the wall? Very briefly, because I want to ask Ms. Hettinga one question.

Mr. HARTLEY. Perhaps you misinterpreted my comments, Mr. Levin, because I did not mean to imply that I had no concern about this issue. I guess my response would be that the issue exists, whether we have a free trade agreement or not. We listened to much testimony this morning and I was struck by the fact that the problems that were being described exist in the absence of a free trade agreement. They are here now and with us, and there is not anything that any of us sitting here can do to change that world in which we live for better or for worse.

The opportunity for a low wage offshore manufacturing exists at the present time, not only in Mexico and the maquiladora, but also in the Far East and elsewhere.

Mr. LEVIN. Let me just interject, a free trade agreement would, by definition, by its purpose, try to increase investment in Mexico. So in that sense, it would intensify investment in a low wage area, no? I mean, that is one of its purposes, to make Mexico a more safe place to invest.

So I do not see on the one hand you can say it is already the way the world is, but then support a free trade agreement. One of the arguments for it is because it would stimulate more investment.

Mr. HARTLEY. Stimulating more investment would be one facet, but only one facet. I think one of the major things that we as manufacturers in this country are looking forward to is the opening up of the Mexican markets. We do not have the same access that the Mexicans have to our markets now.

Mr. LEVIN. Let us do this, because it is late, and I want to take only my 5 minutes so that the chairman can leave and you can. I want to ask, while he is here, a question of you, Ms. Hettinga because I think it shapes the dilemma before the chairman and this committee.

You say, on page two, and Mr. Whitmore commented on this. To those of us in the business community, this is a basic tenet of doing business. You simply do not contract with negotiators who cannot commit their company to an agreement.

The clear implication of that is that the negotiators have to be able to commit themselves and that Congress really should not be able to undermine that. Listen to your language. You simply do not contract with negotiators who cannot commit their company to an agreement.

Ms. HETTINGA. First off, before a negotiator goes in, they pretty well have their orders on how things are going to go. They pretty well have input. For instance, if I go in——

Mr. LEVIN. They have their orders? Do you think Congress gives orders to——

Ms. HETTINGA. Look at it this way. If Congress is doing their job and the administration is doing their job and they are communicating back and forth, they are going to get a good input as to what is going to fly and what is not.

For instance, if I go into negotiate an agreement or someone from my company goes in to negotiate an agreement with someone,

they know the lines under which the rules are drawn, what they can agree to and what is out of bounds. That is what I meant by that. Basically, what I am saying is things are pretty well defined before they go on, or they should be. You should have things laid out. You should know what your plan is.

We have a very serious problem in this country in that no one, and I am saying no one in this world, outside of the United States, has really taken the United States serious. When I am out selling, I have so many people——

Chairman ROSTENKOWSKI. Would you excuse me? I agree with that statement, but my impression recently is that because of Carla Hills in the negotiations, and taking somewhat of a different line at the conclusion in Brussels of the Uruguay round, that that is somewhat changing. Have you found that to be a factor?

Ms. HETTINGA. No, I am sorry, I have not. I have been out selling internationally. Just having returned from Japan, and I tell you seriously, Mrs. Hills' name has been brought up several times. The Japanese hate Carla Hills and it warmed my heart tremendously. They admit to being in a financial war with us. They think we are jerks and they think our Congressmen are jerks to let them get by with what they are doing.

Mr. LEVIN. I know, but Congress does not set trade policy as much as an administration. I think you have answered the question and I just want to say to Mr. Whitmore, those of you who will be talking to him and I will, I have before, no one is suggesting 535 Members sitting around nitpicking.

The question is whether we should be able to take major pieces of a trade agreement and see if they meet our concerns. Mr. Whitmore is not correct either about a referral to the board of directors of a contract, surely to the labor movement. When a contract is taken back, when it has been negotiated, it can be turned down not just yes or no, but in pieces. In major pieces.

The question is whether Congress ought to have the authority, when this is all over, and I hope after a mid-term review, to be able to look not at the very, very details but the key parts and have a real role in saying yes or no and not just be told take it or leave it.

Mr. Chairman, thank you very much.

Chairman ROSTENKOWSKI. I would like to thank the panel for joining us this morning and afternoon. I guess there are going to be some tough decisions made here on the Hill in the next 6 weeks. I am hoping that the administration takes seriously the letter that Senator Bentsen, my counterpart in the Senate, and I have sent them and that I am just not going to get a lot of blue smoke and mirror answers.

As much as I would like to support this free-trade agreement, I have not yet made up my mind. I must admit that Mr. Chandler made the observations earlier this morning, that the people back home are very concerned about losing jobs, are very concerned about the recession that we are presently in. They are worried about whether or not our jobs are going to be transported elsewhere and whether or not there is going to be an improvement in job relations in the United States because of this free-trade agreement.

So all I can say is that whether or not I would want to support it, if the administration is not serious about answering the questions in the letter that Mr. Bentsen and I sent, I do not know that Members who are inclined to support it want to without something to hang their hats on. And if we do not get that, this free-trade agreement will not be a success on the floor of the House of Representatives, if it gets out of this committee.

Mr. Pease.

Mr. PEASE. Thank you very much, Mr. Chairman. It is not surprising that you did not notice me come in. I am so far on the right of most matters, that people often do not——

Chairman ROSTENKOWSKI. Only physically, Don. Only physically.

Mr. PEASE. If I could indulge the time of the panel for just a few more minutes, I would like to ask about a couple of things.

Mrs. Hills has testified previously before the committee and I have expressed to her my concern about the free-trade agreement with Mexico, which is really a rather narrow concern. I do not quarrel about the benefits to our relations with Mexico. I do not quarrel about macroeconomic benefits. I do not quarrel about the effects on immigration, and so on.

But I am concerned about job losses in the American manufacturing sector, and particularly in the Northeast and the Midwest. It just seems to me almost without question a matter of simple logic that if companies are faced with decisions about whether to continue operations in Ohio or Michigan versus moving them down to Mexico, they will go through their normal sophisticated analysis and one of the factors being very much lower wages, there will be times when the companies will find that it is more profitable for them to move to Mexico for all or part of their production.

When I hypothesized this to Mrs. Hills, and I did in this committee about a month ago, she did not acknowledge that there would be any job loss at all. She repeatedly quoted ITC studies which said there would be job gains in the United States. I told her I could not believe that she would not see that there would be some job losses in some sectors, at least in the short run.

Could I ask you the same question? Obviously you are in favor of the free-trade agreement, and you must think there are macroeconomic benefits in the long run, particularly in relation to jobs. Do you acknowledge that there will be short-term job losses in some sectors?

And then do you take the position that even though there will be, the overall benefits outweigh the disadvantages? Or with her, would you be inclined to say that there are not going to be any job losses at all?

Mr. HARTLEY. Perhaps I could start. As I said I think while you were out, Mr. Pease, I think the question comes down to where we are today in the sense that there are already those opportunities. In addition to the maquiladora program, where you can now take your manufacturing offshore so to speak, there is the opportunity around the world for that, at very low labor rates. And U.S. industry has been impacted and U.S. jobs have been impacted in the past by those opportunities.

I think we probably are at, hopefully, at some balance point in the present situation where it made sense and was necessary for

competitive reasons to take advantage of those situations. That has happened. We operate in a world economy and in many cases the very survival of our industries will depend upon the ability to perform certain tasks at certain rates.

I think what Carla Hills is referring to, and I think we all believe this intuitively, is that if our businesses are successful it may require some manufacturing offshore by virtue of labor rate differentials, that by and large the kind of jobs we would like to have in the United States will remain in the United States; the high intellectual content jobs, the research and development activities, the design activities, the things that add to a very high standard of living in this country.

Since the opportunity already exists to move these offshore, what we are really now talking about is the possibility of opening up these markets to U.S. manufacturers in a way in which they are not presently open. This country is very much open to our competitors offshore, and we do not have equal access to their markets.

Mr. PEASE. Would any of the other panelists like to comment?

Mr. MULLANEY. I would like to give you a macro and a micro. The macro is that I cannot help but think there will be some job losses. If Carla Hills was talking about none, then I would disagree with that. But if she said no net job losses, then I would agree with her, because I think there will be—in almost any trade negotiations there are dislocations and there are disruptions, and people lose their jobs. I think it is unreal to think that that is not true.

But the question is, and if you look at things like the only study I have seen, what is the net overall impact on jobs after you get through with those disruptions, and try and provide a transition period and some help to deal with job dislocations, which I think all of us favor.

To give you a micro, at Gillette, we are in south Boston. Joe Moakley, Congressman Rostenkowski's friend, would not let us move out of south Boston into Mexico. Our main plant is right in his back yard.

In any event, we would have absolutely no intention of moving our manufacturing facility from south Boston. Our major manufacturing facility in the world is in south Boston. We would not even think about moving to Mexico.

What we would think about is being able to sell new consumer products into an expanding Mexican market, and we would think about expanding our Mexican operations to sell some products into the United States market. And we think that is what will happen.

We think that the overall impact of a free-trade agreement with a growing and prospering country like Mexico will be overall very positive for the country and for Gillette.

Mr. PEASE. Thank you.

Ms. HETTINGA. I think that we are going to have short-term job loss. I agreed with some of the comments these two gentlemen have said. But I also think one of the other reasons that people are looking down there is that they are looking at that as making up for lack of incentive for purchasing new capital intensive machinery within the United States.

We bring new technology to the market and most of our sales are in Southeast Asia. This is interesting when here are low paying

countries competing with other low paying countries, except they are going to the highest technology they can find in that particular field.

So what we need to do is not put ourselves down on a scale with them, but elevate the technological skills of our people within. And that has to be cooperation between business and government itself, in order to do that.

Mr. MULLANEY. May I add one point, Congressman? The emphasis on the wage differential, to me, is somewhat overemphasized. Wages and the cost of labor are surely significant factors in deciding where you are going to manufacture. And it is for us.

One reason the Braun Co., which is a Gillette-owned operation, is in Mexico is because of wages, but in addition to wages there are all sorts of other things you have to consider, such as capital, exchange rates, and infrastructure. There are just so many things. You cannot just say the Mexican wages are one-tenth of the United States and therefore everybody is going to run down to Mexico. It just does not make sense. There are too many other variables.

Mr. PEASE. Mr. Whitmore, do you have anything to add? Is Mr. Whitmore here?

I appreciate those responses and I gather from all three of you that you would recognize then that there are going to be at least short-term job losses in some sectors. That is fine. That is what I am trying to get on the table, and some of us are more concerned than others about those losses.

Mr. Mullaney, is that right, you were mentioning just a moment ago that there are many factors involved in a decision about whether to locate a plant at location A or location B, and certainly job costs or wage costs are only one. Proximity to market would certainly be one, transportation costs, as you point out a lot of others.

Would you agree that a factor in those decisions might also be the company's perceived cost of environmental compliance in each location?

Mr. MULLANEY. Speaking for our company, that would not be a significant consideration because, as I testified earlier, we have a worldwide policy and we implement the pollution and safety rules that we have in this country around the world. So for us, it would more or less wash.

Mr. PEASE. For your company. How about companies in general?

Mr. MULLANEY. Speaking for the ECAT companies, many of whom I know and represent, I think they would follow a similar policy. I cannot deny that there are not some companies without our resources and capital and size who do not. But generally speaking the mainstream of American industry would certainly follow that rule.

Mr. HARTLEY. Mr. Pease, if I may, speaking for the National Association of Manufacturers, and we represent some 13,500 companies and 80 percent of the industrial output of this country. We are very much on record as favoring a strong environmental protection program. I think our practices throughout are enlightened. I cannot say that every one of our companies are models with regard to adherence to all of the environmental standards that we would

like to have, but I think that by and large we all accept the need for effective programs of this type.

I completely agree with Mr. Mullaney. I think that most of us, certainly speaking for my own company and those that I am familiar with, we make no distinction with regard to whether we are operating in the United States or whether we are operating in Indonesia or whether we are operating in England or wherever it might be. We tend to view that as a—we obviously have to obey the laws in those countries as a starting point, but we also view it as just good business practice to have a sound environmental program.

Mr. PEASE. Would it not make a difference, Mr. Hartley, if your American companies were competing with say Japanese-owned companies or Taiwanese-owned companies in Mexico which did not follow the environmental laws and felt that they did not have to because there was such poor enforcement? Would not your companies be at a competitive disadvantage in that situation?

Mr. HARTLEY. That would be a very real concern to us, yes, sir.

Mr. PEASE. I assume you would think the same thing would be true about inadequate enforcement of worker health and safety standards, OSHA-type laws. If your companies did try to comply and competitors based in Mexico, owned by some other national companies, were ignoring those health and safety standards for workers, that would put you at a competitive disadvantage, also, would it not?

Mr. HARTLEY. Yes, it would.

Mr. PEASE [presiding]. See, when we bring up the environment and worker health and safety standards, USTR keeps saying no, no, we cannot negotiate that within the context of an FTA because those are side matters. They are not trade matters.

My contention is that we ought to, within the dispute resolution mechanism that we will have to set up anyhow under the FTA, provide an opportunity for American companies to say that if a competitor in Mexico is gaining a competitive advantage because it is not adhering to environmental standards or worker health and safety standards, that there ought to be a place within the adjudication process, dispute resolution process, where an objective determination can be made. Is the company doing this or is it not doing this?

And if a competitor is not adhering to health and safety standards or environmental standards, that this could be put on the record, as it is in GATT, as you know. And that some offsetting penalty, like a countervailing duty might be applied in this instance.

This dispute resolution system would be a binational panel. It would not be stacked in our favor. I am just wondering if you would see this type of situation from the point of view that I am looking at it, as a trade-related matter that would have an appropriate place in the discussion of an FTA?

Anybody want to comment on that?

Mr. MULLANEY. My reaction is that there could well be room for it. I know that in our consideration of the whole issue, we have thought there should be some form of dispute resolution incorporated into the agreement, especially in dealing with Mexico be-

cause the resolution of disputes in the judicial system there are not on the same par as they are here.

We think in some way, leaving some flexibility, that should be part of the process. But how tied in and done, I could not suggest.

Mr. HARTLEY. I might just add a word to that. We have made it very clear, I think as an organization that, particularly as it relates to the Uruguay round that we think the issue of dispute resolution is a very important one. The USTR has been sympathetic to that position and has, of course, tried to assure us that that will be forthcoming in any final agreement.

We would believe that to be a very important part of any trade agreement, where actions were being taken which were noncompetitive or making our own manufacturers noncompetitive.

I guess one other point I would make, and you brought in your analogy of Japan, would be that we have perhaps somewhat a narrow view, but we would look at this as a North American free trade agreement in which the primary beneficiaries are hopefully going to be Canada, the United States, and Mexico. To that extent, there are a number of issues of the type that you raise that could be I think appropriately raised, I think having to do with origin and other factors, where we think it would be very important to have the proper agreement before we could support it.

Mr. PEASE. I appreciate those comments. I think it probably goes without saying that the organizations represented by all of you have considerably more influence with the Bush administration than persons like myself, even if I am on the right wing of the Committee over here.

I would say to you genuinely and sincerely, that there is a lot of concern in the Congress, and we represent human beings, for people who will lose their jobs. They come into our offices every day. It is a little hard to say to an American worker who is 42 years of age and has worked for 20 years for the same company and just lost his job because part of the production has been moved to Mexico, that is too bad, you are on your own.

Sure, it is true, as the Wall Street Journal reported on Monday, that there are 12-year-old kids being pressed into service in shoe factories in Mexico, but we should not take that into account. That is not a trade-related issue.

If you have an opportunity to talk with the administration over the next few weeks, I can tell you that they would find it to their advantage in trying to get congressional approval for fast track and for the eventual free-trade agreement if they would recognize that there are some environmental and worker health and safety issues that are trade related, and that perhaps do have an appropriate place in the negotiations.

Well, finally, let me just mention before I have to go off and vote, do your organizations have any position on the question of an adjustment assistance program for workers who do lose their jobs in the short run because of trade, particularly a free trade agreement?

Mr. MULLANEY. Yes, ECAT does. ECAT believes that some form of priority should be given to workers who lose their jobs because of a Government-negotiated trade agreement. Now whether that is in the form of adjustment assistance or some other part of the Fed-

eral jobs program, I do not know. But yes, in some way they should be given assistance. Training, assistance, unemployment additions, whatever.

Ms. HETTINGA. And the U.S. Chamber of Commerce also agrees that there should be temporary safeguards, an adjustment assistance, and they should provide a mechanism for industries to seek temporary relief from sudden import surges resulting from the reduction of import barriers.

Mr. PEASE. Mr. Hartley.

Mr. HARTLEY. Yes, we would agree with that position. We view the fact that this is a very complex issue. It is going to take perhaps a number of years to phase in. There are going to be dislocations, and there have to be remedies for those dislocations.

Mr. PEASE. I appreciate all those positions. Yes, ma'am?

Ms. HETTINGA. Mr. Chairman, I would like to submit for the record, if I may, a listing of economic factors governing business investment in Mexico.

Mr. PEASE. Sure. We will be happy to do that.

[The information follows:]

U.S. Chamber of Commerce

Washington, D.C. 20062

ECONOMIC FACTORS GOVERNING BUSINESS INVESTMENT IN MEXICO

Low labor costs are not the sole reason why U.S. companies may invest in Mexico. Indeed, in some industrial sectors that are highly automated they are not a consideration at all. The following criteria are used by business in determining whether to invest in Mexico, or in any country:

- **Internal Market.** Since international trade is inherently more complicated and risky than home market selling, the size of a country's home market is a principal determinant of the investment. Of equal importance, of course, is the prospect for growth in the market, especially in terms of the purchasing power of the consumer user group.

- **Freedom of Access.** A related question is access to the internal market. Local laws and regulations are important criteria, as are the practical problems of competing, especially against local companies. The degree to which such laws are respected and enforced equitably is an important consideration. Likewise, the amount of governmental intervention in markets is a question to be answered. U.S. companies prefer, obviously, that governments permit the market to determine who makes the sales, not a technocrat or politician who may be trying to advance a specific interest.

- **Labor Force and Raw Materials.** Since the U.S. investor is perhaps best able to supply capital and technology to an undertaking, it is preferable that the other ingredients to the recipe are available locally. In classic thinking, this means labor and raw materials or components. Analysts must determine how easily local labor can be trained to be productive and how stable and secure the other supplier relationships can be. If importation is necessary, then it must be relatively easy to guarantee to the operation some access to imported supplies.

- **Protection from Currency Devaluation.** Currency risk is real for a U.S. company, since the consolidated financial statement will be made in dollars, while the investment will occur in local currency. The risk involves devaluation of the assets (which occurs "after taxes") as well as devaluation that makes currency flows more costly. If the subsidiary must pay for imports or remit interest payments, the local currency cost will rise as the dollar grows stronger relative to the local currency. Many firms use exports as a hedge against this latter risk, but there is no satisfactory coverage against the asset exposure.

- **Remittance of Dividends, Interest, Royalties and Technical Assistance Payments.** This criterion involves the "budgets" referred to above. A company may have a world-wide goal of contributing, say 5% after taxes from each location, on the basis of sales. There may be a secondary requirement that each location pay its direct costs of technical assistance and a share of the world-wide (or regional) indirect costs. This may come in the form of a separate payment or as a royalty. If a country considers interest, profits and technical assistance payments to be the same kind of transfer (subject to taxation and the same ceilings), then the enterprise in that country may be doomed to being chronically under budget in one or more of the categories. Advocates inside the corporation for moving attention to some other part of the world are thus provided with strong arguments for doing so.

- **Protection of Property Rights in Investment and Know-How.** In former days, any respectable

system of property rights would give a company the comfort that assets would not be stolen from them. As the value of companies has increasingly been found in intangibles, especially intellectual property, corporations are more selective about the locations in which valuable technology will be put to use. Special care is given to effective enforcement of such rights, and the ability to protect trade secrets. Regimes that permit compulsory licensing of registered technology (government-mandated sharing of technology in exchange for a fee calculated by the state) are increasingly being avoided.

- **Export Potential.** The ability to export from an operating entity in a foreign country is usually a significant, positive factor. Companies can then maximize world-wide efficiency by trading among operating entities, and they can use profits from exports to compensate, in part, for any problems that might arise from the inconvertibility of the country's local currency. Exporting is also a mark of good corporate citizenship, and thus contributes to a favorable image for the company with respect to its local business relationships and with the government itself.

- **Regulatory Burdens.** Government intervention, in its most burdensome form, can mean the difference between making and losing money in a country. Price and wage controls, for example, take from management the tools with which to turn a profit or develop new products. At a lesser level, the degree of regulation can greatly increase the ratio of operating expenses to costs of production, thus eroding profitability for reasons unrelated to the productive activity itself.

- **Favorable Taxation and Incentives.** Many firms look at taxation as a world-wide issue, shifting receipts and expenses (to the degree possible) to minimize the amount of tax taken from earnings. On the other hand, changes in the U.S. tax law since 1986 make the foreign tax credit less useful for many firms. The corporate income tax rate in the United States has also been lowered. Therefore, the tax burden of operating in a given country is more directly relevant to the investment decision than it was when international adjustments could compensate in part for higher rates or payments. Although incentives are frequently available for new investments, the decision is usually based on how taxation will affect the normal operating environment. Almost all incentives carry implicit costs (such as location in a remote region), which are not inherently interesting to the investor.

- **Low Political Risk.** Like all private citizens, investors must be able to rely upon the integrity of the host government and its ability to maintain local law and order. Although "political risk insurance" is increasingly available for investments and some trade transactions, long-term investment requires confidence in the political culture of the country.

- **Predictable Macroeconomic Management.** The vaguest, but perhaps most important criterion of all relates to the confidence the investor has that the economy in which the investment takes place will be managed in a competent and predictable way. If predictability is not present, then the whole analysis of the investment becomes speculative in both senses of the word: it is guess work, and it is a gamble. There is no necessary requirement that inflation be kept at some specific, low figure; nor is it critical that employment, or interest rates, or other economic variables behave in some pre-determined manner. The problem is one of knowing whether the rules of the game will change in the middle of the contest.

Mr. PEASE. Again, if you were here all morning you heard a number of Members say, including Mr. Gephardt, that they would like to vote for a United States-Mexico Free-Trade Agreement, or at least vote for negotiations. I think they are sincere in that. But they are also trying to balance that general support for free trade and for an open trading system in the world against the very real human concerns of their constituents.

I think that to the extent that we recognize that people are going to suffer and try to provide some adjustment for them, that that is a good investment in the direction of free trade. It is the failure, almost a refusal, of the administration to acknowledge and admit that this is turning some of us into rather vigorous skeptics of the whole operation.

I am running out of time now. Since I am the chairman at the moment, let me thank you all very graciously for your testimony. It has been very helpful and we look forward to working with you in the future.

I have a statement from James Bye and Eric Miller, of Holme Roberts and Owen, attorneys at law, Denver, CO, on the extention of fast-track authority and the impact of such extension, which, without objection, will be made a part of the record.

Again, thank you all very much.

This concludes the hearing.

[Whereupon, at 1:52 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

STATEMENT OF THE AMERICAN TEXTILE MANUFACTURERS INSTITUTE

This statement is submitted by the American Textile Manufacturers Institute (ATMI) on behalf of its member companies. ATMI is the national association of the textile mill products industry (SIC Industry 22). Its members are engaged in every facet of textile manufacturing and marketing and collectively account for more than 75 percent of the fiber consumed by the domestic textile mill products industry.

The Impact of the Uruguay Round on the U.S. Textile and Apparel Industry

The fate of world textile and clothing trade appears sealed with the announced resumption on February 21 of the Uruguay Round talks. Of all the key negotiating groups, textiles is the most nearly complete and could be concluded relatively easily. That is not to say that textiles will be the first agreement to be concluded; because of negotiating dynamics, trade-offs and last minute bargaining may well make it one of the last agreements to be officially completed. It is possible, however, to estimate with considerable accuracy what the agreement will look like and, with some reasonable assumptions, its impact on the U.S. textile and clothing industry.

"Growth-on Growth"

The phase-out proposal contains two main provisions that will affect the growth of imports into the U.S. The first is the "growth-on-growth" feature that increases the growth rates which exist in the 38 U.S. bilateral textile agreements. Average annual growth in those agreements is 3.96 percent and will increase to 7.04 percent during the 10-year phase-out. This will produce, at the very least, a 72 percent increase in current import quotas.

A particularly damaging aspect of this is that not all U.S. quotas are the 3.9 percent average. Some are one percent (a few are even less), some are 3 percent and many are 6 or 7 percent. One might expect that the lower growth rates apply to quotas on more sensitive, heavily import impacted products while higher growth rates are for less sensitive ones. With the exception of the one percent growth rates for wool (highly sensitive), this is not generally the case. The government has instead assigned growth rates based on the supplier country involved. Typically smaller suppliers or politically favored supplying countries get higher growth rates. For example, Pakistan and Indonesia have 7 percent growth rates on many quotas. Turkey has 6 percent rates (except for wool products) regardless of the sensitivity of the product involved. This means that when the growth-on-growth provision is applied, many import sensitive products with growth rates of 6 percent will increase 126 percent over the phase-out period.

The growth-on-growth feature of the Text is also damaging to domestic producers even in the cases where dominant Far East suppliers have lower than average growth rates. Because the quota levels of those suppliers are so large the growth-on-growth provision produces large absolute increases in the levels of import quotas of those suppliers. For example:

Supplying Country	Growth Rate, %	Product	Quota Limits 1991	2001	Increase
PRC	2.1	Cotton Printcloth (mil. sq. meters)	150	195	45
Hong Kong	2.0	Man-made Fiber Trousers (thou. doz.)	773	994	221
Hong Kong	0.5	Cotton Knit Shirts (thou. doz.)	4,614	4,916	303

Product Integration

The second feature of the phase-out plan that leads to rapid import growth is the so-called "product integration" provision. This requires the U.S. to "decontrol" at least 45 percent of its current imports during the phase-out according to the following schedule:

Beginning Year	U.S. 1990 Imports Integrated
0	10%
5	15%
8	20%

Products integrated into the GATT in this manner cannot be "called" or returned to MFA-type quota control. The only remedy available to domestic producers if these uncontrolled products cause or threaten injury would be to use the "escape clause" procedures of Section 201 of the Trade Agreements Act of 1974. The spotty and largely unsuccessful history of domestic use of Section 201 is well-known and today Section 201 is not much of a remedy at all. In a classic example of its flaws, the U.S. footwear industry obtained modest 201 relief in the early 80's, but was unsuccessful in obtaining an extension. Even though the International Trade Commission (ITC) agreed that an extension was justified, the White House denied relief. Today, imports account for over 82 percent of the U.S. footwear market.

Moreover, while the Uruguay Round may produce some changes in Article XIX of the GATT (the international framework for Section 201), U.S. negotiators have indicated that Section 201 will remain fundamentally unchanged. Suffice it to say that once a product is "integrated", it is essentially beyond the reach of quotas or other import relief -- regardless of subsequent injury to U.S. producers and workers.

Another pernicious feature of product integration is the "central planning" aspect whereby importing governments would have to pick the product sectors to be "sacrificed." Every few years, the Administration must decide whether, for example, the U.S. umbrella industry, sweater industry, soft-sided luggage industry, neckwear industry, cotton broadcloth industry, or wool fabric industry will survive through the full phase-out or will be completely and instantly integrated into the GATT. This is an appalling provision of the Chairman's Text.

Should any bureaucrat be given this much power over the future of companies and workers? Moreover, how will businessmen in the domestic industry plan future investments not knowing whether they will "make the cut" and survive? They won't and failing to invest will accelerate the downward spiral for the industry. Why would the U.S. agree to such an insidious process? In any case, the Administration has done so and has sealed the fate of yet unnamed U.S. product sectors.

Impact of Accelerated Import Growth

The impact of the growth-on-growth and product integration provisions has been estimated in Table 1 and is shown graphically in Figure 1. The impact on domestic production and employment in textiles and clothing is devastating. During the 10-year phase-out, U.S. textile and clothing production will decline from 17.8 billion square meters to 3.0 billion and employment in the industry will drop to 302,000 workers from its current level of 1.7 million.

The analysis assumes U.S. market growth of one percent annually over the ten year phase-out. This assumption is based on several sources:

- An extrapolation of the 1974-1990 trend in market growth as shown in Figure 2.

- Estimates done by U.S. fiber producers using econometric models and other analyses to derive market growth projections for key sectors of the textile and clothing industry.

These estimates coincide with the rational expectation of slow growth in consumption of these products because of slow population growth and an aging population forecasted over the next decade.

However, even if market growth were to increase to two percent annually -- an estimate considered "off the charts" by industry analysts, the Chairman's Text would still produce an extremely damaging result. Domestic production would decline to 5.8 billion square meters and some 1.1 million jobs would be lost. Even overly optimistic projections of market growth cannot compensate for the damaging excesses of this agreement.

ANALYSIS OF GROWTH RATES AND PRODUCT INTEGRATION SCENARIO FOR U.S. TEXTILE AND APPAREL IMPORTS
AS FOUND IN CHAIRMAN'S TEXT OF 19 NOVEMBER 1990
(1990 ACTUAL IMPORTS)

FIRST 5 YEARS HAS 10.0% UNCONTROLLED GROWTH, 0.6 PERCENT CONTROLLED BY TEXTILE SAFEGUARD MECHANISM
LAST 5 YEARS HAS 7.5% UNCONTROLLED GROWTH, 0.5 PERCENT CONTROLLED BY SAFEGUARD, THREE STEP REINTEGRATION

	UNCONTROLLED IMPORTS	TOTAL QUOTA AVAILABLE	TOTAL CONTROLLED IMPORTS	TOTAL IMPORTS	U.S. MARKET	IMPORTS AS % OF U.S. MARKET	US DOMESTIC PRODUCTION	DOMESTIC PRODUCTION EMPLOYMENT
1990 ACTUAL	4,922.2	9,084.6	7,267.7	12,189.9	30,264	40.28	18,074	1,757,000
1991	5,414.6	9,475.9	7,580.7	12,995.1	30,567	42.51	17,571	1,757,150
1992	5,955.9	9,918.3	7,934.6	13,890.5	30,872	44.99	16,982	1,698,182
1993	6,551.4	10,421.0	8,336.8	14,888.2	31,181	47.75	16,293	1,629,280
1994	7,206.6	10,994.4	8,795.5	16,002.1	31,493	50.81	15,491	1,549,074
1995	7,927.3	11,650.6	9,320.5	17,247.7	31,808	54.22	14,560	1,456,002
1996	10,548.5	10,565.0	8,452.0	19,000.5	32,126	59.14	13,125	1,312,535
1997	11,339.6	11,418.1	10,276.3	21,616.0	32,447	66.62	10,831	1,083,114
1998	12,190.1	12,396.6	11,156.9	23,347.0	32,772	71.24	9,425	942,453
1999	15,542.4	11,063.2	9,956.9	25,499.3	33,099	77.04	7,600	760,001
2000	16,708.1	12,511.8	11,260.6	27,968.7	33,430	83.66	5,462	546,158
2001	17,961.2	14,199.6	12,779.6	30,740.8	33,765	91.04	3,024	302,376

GROWTH OF UNCONTROLLED TRADE
- 1983 THROUGH 1989 UNCONTROLLED GROWTH = 10.6% / YEAR
- ASSUMED UNCONTROLLED GROWTH RATE = 10.0% FOR FIRST 5 YEARS AND 7.5% FOR LAST 5 YEARS OF INTEGRATION
- THE OTHER 0.6 FOR FIRST 5 YEARS AND 0.5 PERCENT FOR LAST 5 YEARS IS CONTROLLED USING THE NEW SAFEGUARD MECHANISM

GROWTH OF CONTROLLED TRADE IS BASED ON CURRENT NEGOTIATING TEXT
- GROWTH IN FIRST 4 YEARS IS 16 % ABOVE PRESENT AVG. GROWTH RATE OF 3.98 % (4.62 %)
- GROWTH IN NEXT 3 YEARS IS 21 % ABOVE PREVIOUS PERIOD'S LEVEL (5.59 %)
- GROWTH IN FINAL 3 YEARS IS 26 % ABOVE PREVIOUS PERIOD'S LEVEL (7.04 %)

REINTEGRATION OF PRODUCTS:
- INITIAL REINTEGRATION DOES NOT INCLUDE PRODUCTS PRESENTLY UNDER QUOTA AND DOES NOT APPEAR IN ANALYSIS
- 15 PERCENT OF 1990 CONTROLLED TRADE IS REINTEGRATED INTO UNCONTROLLED IN 1996
- 20 PERCENT OF 1990 CONTROLLED TRADE IS REINTEGRATED INTO UNCONTROLLED IN 1999

TOTAL IMPORTS = SUM OF UNCONTROLLED IMPORTS + CONTROLLED IMPORTS (WHICH IS ASSUMED TO BE 80% OF QUOTA AVAILABLE FOR FIRST FIVE YEARS AND 90 % FOR LAST FIVE YEARS)

MARKET GROWTH = ONE PERCENT PER YEAR IN SQUARE METERS

EMPLOYMENT
- DOMESTIC PRODUCTION EMPLOYMENT PROJECTIONS BASED ON 100,000 WORKERS PER BILLION SME PRODUCTION
- THE AVERAGE LABOR PER SQUARE METER WILL NOT, IN REALITY, REFLECT LOSSES OVER TIME BEACAUSE IT IS LIKELY THAT PRODUCTS WITH A HIGH LABOR CONTENT WILL BE AFFECTED BY IMPORTS FIRST

Table 1

Figure 1

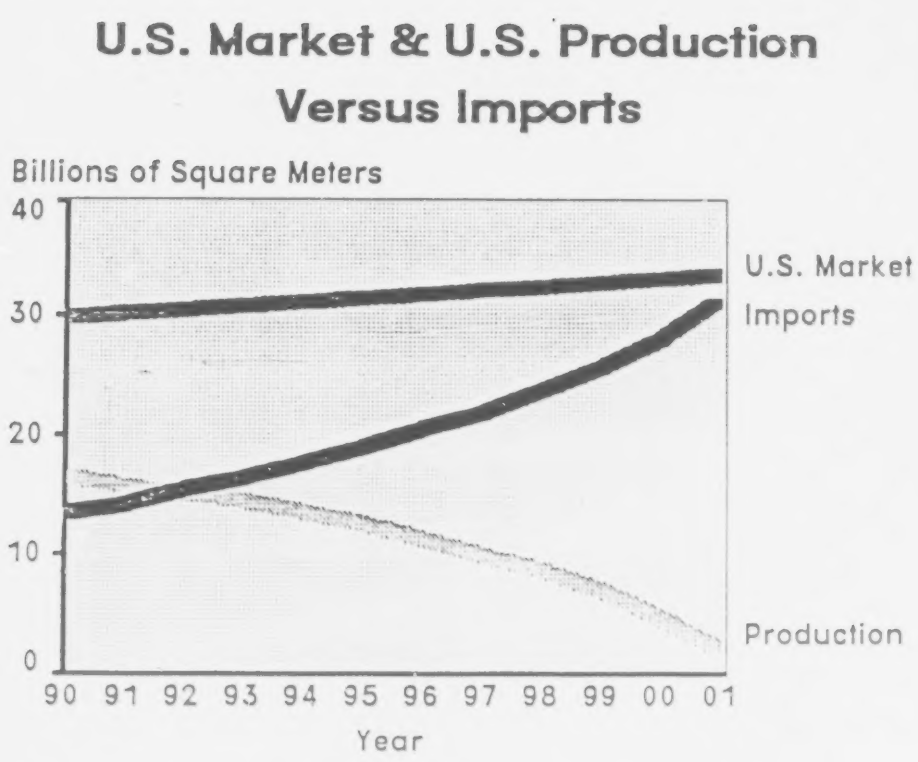

U.S. Market & U.S. Production
Versus Imports
Billions of Square Meters
40
30
20
10
0
90 91 92 93 94 95 96 97 98 99 00 01
Year
U.S. Market
Imports
Production

Figure 2

THE U.S. MARKET FOR TEXTILES
GROWING SLOWLY OVER TIME

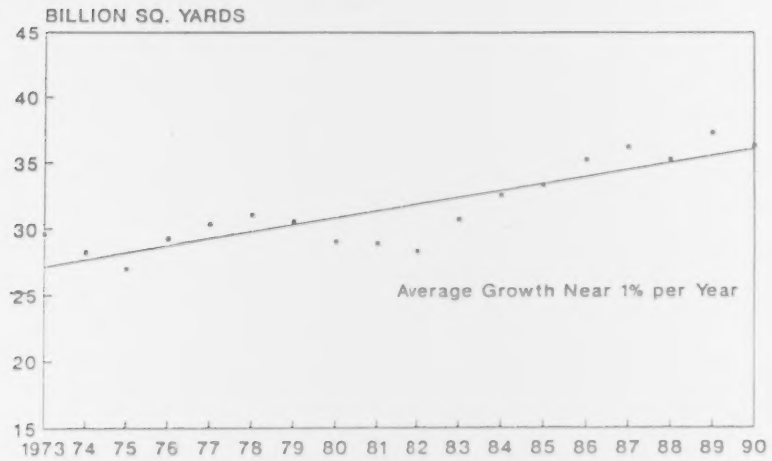
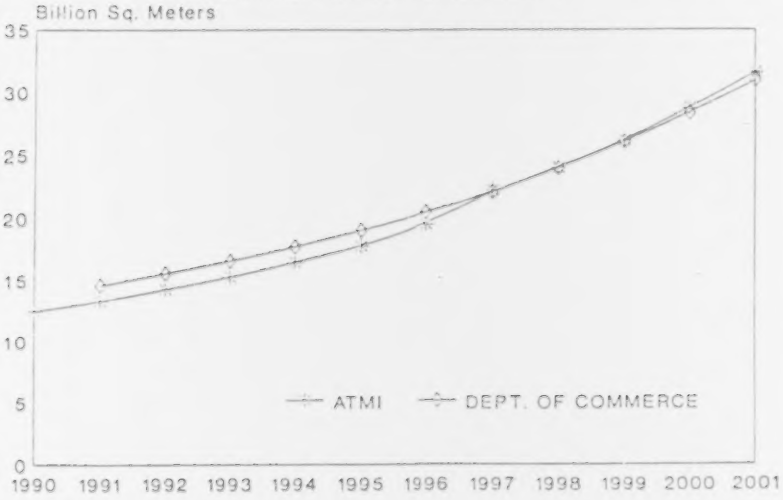


Figure 3

COMPARISON OF IMPORT PROJECTIONS UNDER URUGUAY ROUND TEXTILE PROPOSAL
DEPARTMENT OF COMMERCE AND ATMI



Secondary effects will be at least as damaging. A conservative one-to-one "ripple" effect could produce an additional 1.4 million job losses in supporting and supplying industries. Fiber producers will be especially hard hit since the domestic textile industry consumes more than half of the U.S. cotton crop and nearly all of the wool grown and man-made fibers produced in the U.S.

The analysis is based on import growth estimates which closely track estimates made by the U.S. Department of Commerce. These estimates are compared in Figure 3.

Other Provisions

The Chairman's Text has several other features that are being touted by the Administration as major improvements over the MFA. None of these claims stands up to close scrutiny. The Administration claims that the Text's "cumulative disruption safeguard" feature will permit the U.S. to place quotas on disruptive products from more than one supplying country during the phase-out (except for products already integrated). The current MFA also permits this; cumulative market disruption has been a cornerstone of the MFA since its inception. The U.S. has chosen not to use it extensively and is now "paying" at the bargaining table to get it in the Chairman's Text. In any case, it will have little operational significance because the five agencies (State, Treasury, Labor, Commerce and USTR) on the Committee to Implement Textile Agreements (CITA) often have difficulty agreeing on one new quota. Why will they agree more readily to multiple quotas?

The Administration also claims that the provision relating to quota fraud involving transshipments is a major improvement. In fact, the U.S. can already act decisively and unilaterally -- and sometimes does -- against countries who circumvent quotas. Recent actions against Macau and the People's Republic of China show that if the political will is there, the mechanisms are in place at U.S. Customs to police the quota agreements. Again, the U.S. is paying for something it can already do.

Finally, the Chairman's Text is hailed by the Administration as opening markets in the developing countries which are now closed or severely restrict foreign textile products. But in fact, this provision has no teeth in it. For example, should the U.S. decide that India has not fulfilled its GATT obligations to open its market, the U.S. is entitled to protest to a group of countries which will comprise a Textile Monitoring Body (TMB). The TMB will decide whether the U.S. protest has merit. However, even if the TMB does agree with the U.S. (which is far from certain since some countries on the TMB are also likely targets for such complaints), India can object. The entire process would ultimately be decided by a vote of the GATT Council of some 100 countries, three quarters of which are developing countries and a majority of which have substantial restrictions themselves on imported textile products. Even if the U.S. protest were successful, the Text does not spell out the sanctions permitted to be applied against non-performing countries (in this case, India).

For this reason, the analysis of the impact of the Chairman's Text on U.S. production and jobs did not include projections of increased domestic production for export. Nonetheless, such an estimate was made in order to assess, at least theoretically, the impact of opening foreign markets. If textile and clothing exports from the U.S. in the 1990's were to increase 5 percent annually in real terms (a far greater increase than during any recent decade), after 10 years, U.S. production would be 2 billion square meters higher than reported in Table 1. This means 173,000 more U.S. workers would be employed but the result would remain a disaster for the domestic industry with 1.2 million jobs lost.

Conclusion

The major developing countries must find it difficult to believe that such a proposal as in the Chairman's Text has advanced nearly to full agreement. It is likely that never in their (or their U.S. consultants') wildest dreams did they envision such a capitulation by the developed countries. What started out five years ago at the beginning of the Uruguay Round with a simple statement that talks should begin to figure out how the MFA should be phased out and under what conditions now threatens the very existence of the U.S. textile and clothing industry. However, the Chairman's Text so favors the dominant, low-wage major Far East suppliers that the U.S. textile and clothing industry could be only one of the victims displaced by the likes of the PRC, India, Pakistan, etc. Mexico and smaller developing countries might wind up wishing this was all a dream.

The MFA Phase-Out and Mexico

The phase-out of the MFA coupled with Uruguay Round reductions of U.S. tariffs on textiles and clothing will significantly reduce the value of the proposed Mexico/U.S. Free Trade Agreement (FTA). Moreover, the type of phase-out mechanism currently on the table and likely to be agreed to will be highly disadvantageous to Mexico.

To understand the impact of these developments on Mexico, it is necessary to look at the composition of Mexico's exports to the U.S. and the prices of those exports relative to other, and especially Far Eastern, suppliers. The major exports from Mexico to the U.S. currently by product category are in Table 2. Also shown are the major suppliers of these products to the U.S. Clearly, Mexico's current competition in the U.S. market is from the large Far East suppliers.

The Chairman's Text will permit products which remain under quota during the ten years of the phase-out to grow an average of 72 percent. It is true that Mexico generally enjoys higher annual quota growth rates than the major Far East suppliers (6% vs. 1 to 3%). Thus, one might argue that Mexico will be relatively better off under the Chairman's Text. That is not necessarily the case if one considers the absolute increases resulting from the compounded growth effects on the very large Far East quotas compared to the relatively smaller Mexican quotas. (See Table 3.) Moreover, many Far

Table 2

Major U.S. Imports From Mexico

Product Category	1990 mil.sme.	Mexico's Rank	Other Major Suppliers
313 - Cotton Sheeting	20.1	7	Pakistan (1) Taiwan (2) PRC (3) Korea (4) USSR (5) Hong Kong (6)
651 - Man-made fiber nightwear	13.5	4	Dom. Rep. (1) PRC (2) Taiwan (3)
652 - Man-made fiber underwear	19.3	3	Hong Kong (1) PRC (2)

East quotas are not only large, but are less than fully utilized, which increases the potential for surges of imports from the Far East.

Mexico's relative competitiveness is illustrated in Figure 4 and shows that in several knit and woven clothing products, as well as in a basic cotton fabric, Mexico is a higher cost supplier than the dominant Far East supplier and, in some cases, than even suppliers in the Caribbean. In all of the examples, Mexico would still be a higher cost supplier on a duty-free basis.

Because U.S. textile and clothing tariffs will be cut in the Uruguay Round on an MFN basis, Mexico will be further disadvantaged in an FTA, since their margin of tariff preference will shrink.

The Chairman's Text also contains an especially damaging feature for Mexico -- product integration. Importing countries will have to "integrate into the GATT" at least 45 percent of their current import trade in three stages during the 10-year phase-out. This means that Mexico will be confronted with intensified competition in the integrated products from the dominant Far East suppliers as soon as the Uruguay Round is implemented. That competition will escalate during the phase out. Importers in the U.S. could favor their already established Far East suppliers who will become increasingly free of quotas, rather than switch to a less-well established Mexican textile and clothing

industry, even though duties with Mexico are being phased out. At the same time, Far East suppliers will be competing among themselves for the U.S. market and the likely winners will be the large, low-wage and primarily non-market economy, subsidized producers such as the People's Republic of China, India, Pakistan, and Indonesia. These economies are not substantially market-driven, especially in exporting where their main objectives are to earn foreign exchange and create jobs. They will not surrender market share easily to Mexico.

Table 3

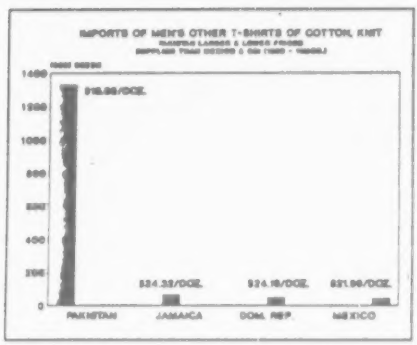
Quota Growth - Mexico and Its Major Asian Competitors

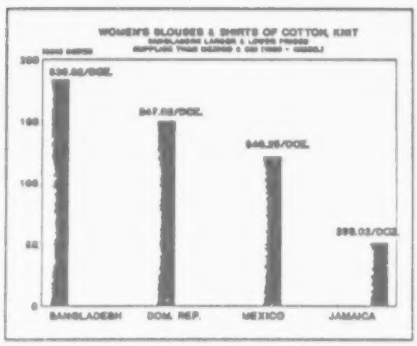
Product Category	1991 Growth Rate, %	Quota Limit, units 1991	2001
219 - Cotton Duck Fabric, Mil.Sq.M.			
Hong Kong	2.5	37.6	52.9
Mexico	6.0	14.0	31.2
313 - Cotton Sheeting, Mil.Sq.M.			
Pakistan	5.7	71.1	152.3
Mexico	6.0	25.0	55.7
315 - Cotton Printcloth, Mil.Sq.M.			
PRC	2.1	146.0	194.7
Mexico	6.0	45.0	100.2
635 - Women's & Girls' Man-Made Fiber Coats, Thou.Doz.			
PRC	3.5	527	847
Mexico	6.0	129	288
652 - Man-Made Fiber Underwear, Thou.Doz.			
Pakistan	2.0	3,905	5,138
Mexico	6.0	1,600	3,563

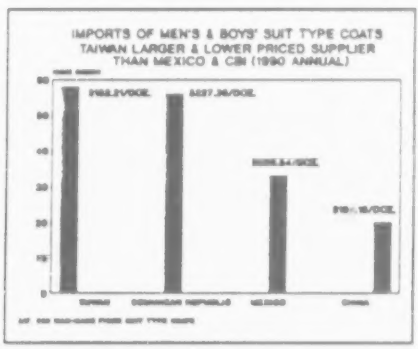
Source: U.S. Department of Commerce, Major Shippers Report and Summary of Agreements.

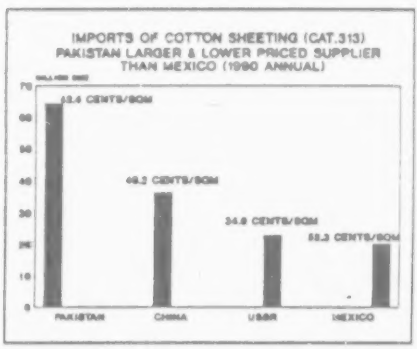
Figure 4

MEXICO'S RELATIVE COMPETITIVENESS IN CLOTHING EXPORTS









SOURCE: U.S. Department of Commerce
Bureau of the Census

Mexico's situation under an FTA and that of the Caribbean countries would be far better with continued or reduced quota coverage of the dominant Far East suppliers.

In spite of this, the Administration is seeking an extension of fast track authority to implement both the Uruguay Round and an FTA with Mexico. Yet the type of Uruguay Round textiles proposal the Administration supports is clearly inimical to Mexico's interests in an FTA.

Conclusions

The key results of implementation of the MFA phase-out proposal now being negotiated in the Uruguay Round will be:

- The U.S. textile and clothing industry over the next decade will essentially disappear as a major manufacturer and the largest manufacturing employer in the U.S.
- U.S. fiber producers -- cotton, wool and man-made -- will have to cope with the disappearance of their largest customer and will be seriously damaged.
- The PRC, India, Pakistan, Indonesia and other large low-wage, essentially non-market, subsidized economies will dominate the U.S. textile and clothing market with the PRC clearly the principal beneficiary.
- Mexico, even with a free trade agreement with the U.S., and smaller developing countries will lose market share in the U.S. to the dominant Asian producers.

The most incomprehensible aspect of these developments is that the U.S. government is not only going along with but is actively supporting this result. Perhaps the Administration has reasons why it wants to surrender its market to the truly undeserving textile producers such as China, India and Pakistan, but it is difficult to fathom what they are. These countries have slaughtered their own citizens, ignored and flaunted the rules and disciplines of the GATT, cheated on textile and clothing qutoas, obstructed progress in the Uruguay Round and maintained markets closed to textile and clothing imports (as well as to many other products). It is almost impossible to assemble a more undeserving list of countries.

Because the Administration is supporting the Chairman's Text, ATMI has committed to fight the Uruguay Round outcome at every opportunity. ATMI is therefore opposed to the extension of fast track authority which is being sought by the Administration.

April 13, 1991

Chairman

Ways and Means Committee
US Capitol
Washington, DC 20515

Dear Mr. Chairman,

Today on C-SPAN it was interesting to hear the testimony on the open trade with Mexico. I would like to add aparagraph or two to the proceedings.

We live 7 miles from Tijuana, Mexico in Coronado, CA. Every day and night the smog hangs over Tijuana and of course is part of our problem next door. They have NO smog restrictions.

12 to 15 MILLION GALLONS DAILY of raw sewage and hazardous chemicals empty into the ocean at the border, via the Tijauna River (The county verifies this amount) Our local shoreline is polluted and people who swim there get sick. This includes the Navy SEAL teams that train here. The local TV News, a year ago, showed the dumping of hazardous chemicals into the storm drains and sewer drains at the Tijuana maquiladora plants. There are thousands there now and there will be many more thousands, if the agreement goes through. The pollution will multiply by the thousands with this program.

I read about President Bush and President Salinas meeting concerning this agreement. It was said in the news then, but hasn't been mentioned since, that Salinas insisted on an open border for Mexicans to come to the U.S.. Los Angeles is already 40% Mexican, and San Diego is about the same. They are taking over the schools, jobs, welfare, and on and on. WE PAY for all the illegals here, because the law says we have to pay for their welfare, schools, etc. The U.S. government refuses to help with the local bills.

Now the U.S. government is opening the gates to whoever wants to come. They already line up by the thousands every night to cross the border. There are no fences. In fact they drive cars, trucks, and vans across daily - and NOT through the gates.

How about helping U.S. CITIZENS for a change!!!

Sincerely,

Earle R. Callahan

860 Carrillo Ave.
Coronado, CA 92118

STATEMENT OF RODNEY E. LEONARD AND ERIC CHRISTENSEN, ESQ., ON BEHALF OF COMMUNITY NUTRITION INSTITUTE

This testimony is presented on behalf of the Community Nutrition Institute (CNI), a non-profit public advocacy organization dedicated to protection of the consumer and to preserving the safety and adequacy of America's food supply. CNI has been studying the connection between international trade policy and consumer and environmental protection for more than a year. While we recognize that lowering trade barriers can create tremendous benefits for consumers, we are deeply concerned that current negotiations on the General Agreement on Tariffs and Trade (GATT), as well as the Free Trade Agreement (FTA) between the U.S. and Mexico, as currently envisioned by the Bush Administration, could have severe consequences for environmental and consumer protection here in the U.S. and around the world. If Congress is required to consider trade agreements under "Fast Track" rules, it will be unable to adequately address these concerns.

Rodney E. Leonard is Executive Director of CNI. Prior to founding CNI in 1970, Mr. Leonard held several positions in the U.S. Department of Agriculture, including Administrator of the Consumer Marketing Service. Mr. Leonard also served as Deputy Director of the U.S. Office of Consumer Affairs for President Carter. Mr. Leonard holds a degree in economics from Kansas State University and studied journalism as a graduate student at the University of Minnesota. Eric Christensen is a consulting attorney with CNI. He holds a degree in biology from the University of Kansas and a law degree from Stanford Law School.

I. THE FAST TRACK APPROVAL PROCESS PREVENTS CONGRESS FROM ADDRESSING THE PROBLEMS THAT MAY BE CREATED FOR ENVIRONMENTAL AND CONSUMER PROTECTION ISSUES BY TRADE AGREEMENTS

The Fast Track process cedes nearly all of Congress' Constitutional authority over trade policy to the Executive, allowing the Administration to present a trade agreement to Congress as a *fait accompli*. Absent Fast Track, Congress would almost certainly reject many of the specific policies that have been pursued by the Administration in recent trade negotiations because these policies threaten environmental quality and consumer welfare, both of which Congress has gone to considerable lengths to protect in recent years.

By eliminating amendments to trade agreements, Fast Track eliminates Congress' option to excise undesirable elements of a trade agreement. This leaves Congress in the very difficult position of either having to reject the entire trade agreement, an option that carries enormous political costs, or accepting a trade agreement that may be generally desirable but contains elements that substantially weaken Congress' efforts to protect the environment and consumer welfare.

The strict limits on Congressional debate imposed under Fast Track unduly constrain Congress' ability to examine all aspects of a trade agreement. It is extremely difficult, if not impossible, for Congress adequately to analyze a trade agreement and its implementing legislation, which together may contain may contain hundreds or thousands of pages and may touch almost every aspect of domestic legislation, in the fifteen legislative days and twenty hours of debate allowed under Fast Track.

II. WITHOUT ADEQUATE SAFEGUARDS, A FREE TRADE AGREEMENT WITH MEXICO COULD UNDERMINE ENVIRONMENTAL QUALITY THROUGHOUT NORTH AMERICA

The Mexican government has devoted little or no effort to ensuring that industry in that country complies with environmental laws. Under these conditions, a FTA with Mexico is likely to accelerate environmental degradation on both sides of the border and to create severe economic dislocation in the U.S. as American industries with pollution problems flee across a border that has been opened to free movement of capital under the FTA. Further, industrial threats to move to Mexico could hamstring environmental regulators in the U.S., producing increased pollution in this country.

Environmental pollution will ultimately undermine economic development in Mexico by destroying scarce critical resources such as water supplies and undermining the viability of industrial expansion in Mexico. Sidney Weintraub, one of the most respected analysts of relations between Mexico and the U.S., says that "environmental survival is the most critical border issue of all."[1]

CNI is convinced that a country's willingness to impose the social costs of pollution upon its people is not a legitimate basis for it to claim comparative advantage in international trade. Therefore, concrete steps must be taken as part of the FTA negotiations to ensure that adequate environmental regulation exists in Mexico and the United States so that these social costs are internalized by industry.

A. Polluting Industries Have Fled to Mexico in Large Numbers to Exploit Weak Environmental Enforcement South of the Border

On paper, Mexico's environmental law, the General Law on Ecological Balance and Environmental Protection[2], is one of the more advanced among the developing countries. However, it is generally less restrictive than U.S. law.[3] More importantly, the Mexican law has not been implemented. Mounting evidence demonstrates that Mexico's environmental laws are often unenforced.

For instance, the Mexican federal government's budget for environmental enforcement is only U.S.$3.15 million.[4] Further, very limited manpower is available to the Secretaria de Desarrollo Urbano y Ecologia (SEDUE), the Mexican environmental agency, for environmental enforcement efforts.[5] SEDUE also lacks expertise to deal with complex environmental problems like hazardous waste.[6] Corruption is commonplace. SEDUE officials frequently accept bribes from polluters.[7]

Similarly, the 1983 La Paz Agreement, in which SEDUE and the U.S. Environmental Protection Agency (USEPA) pledged greater cooperation in enforcement of environmental laws, has been criticized for slow progress and lack of enforcement resources.[8] The American Medical Association's (AMA) Council on Scientific Affairs has concluded that "the present working relationship between the United States and Mexico is not functioning well and cannot adequately cope with existing environmental conditions ... the prospects for success do not appear promising."[9] Cuauhtemoc Cardenas, leader of Mexico's Party of the Democratic Revolution and a Presidential candidate in 1988, states "Most of the treaties and agreements Mexico and the United States have signed in this field [environmental protection] are so far merely words on paper."[10]

Industry has been attracted to Mexico because of its lax environmental enforcement record. Powerful incentives to move south are often created by the difference in environmental compliance costs between Mexico and the U.S. For instance, prices for hazardous waste disposal in the U.S. range from $200 to over $2000 per barrel, while disposal costs in Mexico are rarely higher than $200 and often considerably less.[11] Already, industries such as furniture manufacturing and metal plating have fled to Mexico to avoid costly environmental controls.[12]

Professor Roberto Sanchez has attempted to quantify the number of industries that have fled the U.S. for Mexico to escape stringent environmental regulations. His conclusions are startling. He found that

> Ten percent of the maquiladoras [labor intensive assembly industries] in Mexicali considered environmental regulations to be among the main factors in the decision to leave the United States, and 17 percent considered it a factor of importance. On the selection of Mexicali, almost 13 percent of the maquiladoras considered weaker environmental legislation in Mexico a main factor for relocation and another 13 percent considered it a factor of importance.[13]

Flight of dirty industries to Mexico severely undercuts enforcement of U.S. environmental laws. First, it defeats the purpose of those laws because pollutants still reach the biosphere and in many cases come back across the U.S. border. Second, environmental regulators are stifled by industry threats to move to less restrictive jurisdictions. For instance, under the U.S.-Canada Free Trade Agreement, Canadian regulators have been stymied by both explicit and implicit industry threats to move south if Canadian environmental laws are fully enforced.[14] This evidence strongly suggests that a FTA that does not adequately address environmental issues could lead to substantially higher levels of pollution on both sides of the border.

B. Experience in the Maquiladora Free Trade Zone Demonstrates the Danger of Free Trade Without Adequate Environmental Regulation

The experience with Mexico's maquiladora industry demonstrates the danger of lax environmental enforcement and provides a disturbing preview of what life could be like after the FTA. The maquiladoras operate under special trade rules that allow duty-free import of raw materials into Mexico for assembly by cheap Mexican labor and duty-free export of finished goods to the American market. The maquiladora industry has grown explosively since the beginning of Mexico's economic crisis in 1982 as the relative wage differential between the U.S. and Mexico has grown. There are now approximately 2,000 maquiladora plants.[16]

Because most maquiladoras operate with little or no regard for the environment, they have caused severe pollution of the air, water, and soil on both sides of the border. The American Medical Association recently concluded that

[E]nvironmental monitoring and disease incidence data continue to point out that public health and environmental health along the border -- the result of uncontrolled air and water pollution and lack of disease vector control -- is rapidly deteriorating and seriously affecting the health and future economic vitality on both sides of the border.[17]

We believe that without substantial measures to protect the environment and public health, a FTA will simply accelerate the environmentally destructive and ultimately unsustainable development that has occurred under the maquiladora program. In the words of Homero Aridjis, President of Mexico's Group of 100, an influential environmental organization,

What is now a danger zone would become an environmental war zone. The border region is a barren desert that is not geologically fit for industrialization. A free [trade] zone accord would only speed up the process [of environmental degradation].[18]

1. *Maquiladoras Routinely Violate Environmental Laws*

Recent evidence shows that a large majority of maquiladoras ignore environmental regulations. Exact figures are difficult to come by because neither SEDUE nor EPA has kept adequate records.[19] However, Rene Altamirano, a SEDUE official, recently estimated that only about 35% of the U.S.-owned maquiladoras are complying with Mexican environmental laws.[20]

Professor Roberto Sanchez has attempted to quantify the level of compliance with Mexico's hazardous waste laws among maquiladoras indirectly by examining customs documents related to hazardous materials moving across the U.S.-Mexico border. He concluded that because only a handful of maquiladoras send their hazardous wastes back to the United States for disposal[21] and that almost no treatment or recycling facilities exist in Mexico, it is likely that large volumes of hazardous waste are illegally disposed of in Mexico.[22] Professor Sanchez's results were confirmed by a SEDUE survey released last November that found that only 30% of American-owned maquiladoras complied with SEDUE rules requiring them to report on their waste-handling activities and only 19% could demonstrate that they had properly disposed of hazardous wastes.[23]

2. *The Maquiladoras Have Caused Widespread Industrial Pollution*

The failure of the maquiladoras to respect environmental laws has produced severe degradation of the environment on both sides of the border. For instance, according to the AMA, the city of El Paso exceeds U.S. air quality standards for ozone, carbon monoxide, and particulates, largely because of industrial activities in the Mexican city of Cuidad Juarez, directly across the border.[24]

Severe pollution from hazardous wastes has also been detected. For instance, a chemical analysis performed by the National Toxics Campaign of wastewater being dumped by a General Motors plant in Matamoros found 2,700,000 parts per billion of xylene. A similar analysis of wastewater taken from the large maquiladora community of Sonora found potent carcinogens such as chloroform, benzene, and toluene in concentrations from twice to seven times the legal limit.[25] The most thorough survey of hazardous waste contamination from the maquiladoras, performed last year in the Nogales area, found widespread contamination from industrial chemicals, including known and suspected carcinogens. The aquifer in that area has been contaminated by these chemicals.[26]

These industrial pollutants are finding their way back across the border into the U.S. For instance, industrial chemicals such as DDT, PCBs, toxaphene, and trichloroethane have been found in high levels the New River, which flows from Mexico into the United States, and empties into California's Salton Sea.[27]

3. Inadequate Infrastructure for Maquiladora Communities Has Produced a Public Health Crisis

The past decade has witnessed explosive growth in the human population of maquiladora communities. For instance, the population of Cuidad Juarez grew 135%, to about 1.5 million, between 1975 and 1985. Similarly, Tijuana has grown from fewer than 200,000 to more than one million during the maquiladora era.[28] These communities lack the basic infrastructure to cope with such explosive population growth. For instance, Cuidad Juarez does not have a sewage treatment plant and Tijuana has only one.[29]

As a result, the border environment has been deluged with human effluent, producing what the AMA calls "a virtual cesspool and breeding ground for infectious disease."[30] Because electricity is unavailable to most maquiladora communities, wood must be burned for cooking and rubber tires are often burned to fire brick and tile kilns, adding to sometimes severe air pollution on both sides of the border.[31]

Tons of untreated sewage are dumped into border rivers, often laced with hazardous chemicals poured into sewers by maquiladoras. According to the AMA, every day 46 million liters of raw sewage flow into the Tijuana River, 76 million liters are dumped into the New River, and 84 million are discharged into the Rio Grande.[32] This pollution load creates a severe threat to human health. For instance, more than 20 kinds of pathogenic viruses and bacteria have been detected in the New River, including three strains of polio.[33] Extremely high rates of infection have resulted. For instance, in San Elizario, Texas, because of polluted drinking water, 85% of children are infected with hepatitis A by age 8, and 85% to 95% of the town's population is infected by age 35.[34] Diseases such as rabies, salmonellosis, and shigellosis also occur at very high rates.[35]

Because water is in short supply in the border region, this massive pollution undercuts the physical sustainability of the maquiladoras. Already, the Rio Grande is overused and aquifers in the border region are being depleted faster than they can recharge.[36]

4. The Costs of Pollution Overwhelm the Economic Gains Created by the Maquiladoras

The economic burdens created by pollution along the border and the need for new infrastructure to cope with rapidly rising human populations are staggering. The U.S. Embassy in Mexico has estimated that it will cost U.S.$9 billion to clean up the border environment.[37] A recent report issued by the governors of the U.S. and Mexican border states estimates that U.S.$5 billion in new infrastructure spending is needed to meet the needs of the border communities.[38] Another study, by the University of Texas at El Paso, suggests that infrastructure spending requirements are even greater, about U.S.$9 billion.[39]

These huge costs are created by an industry now generating approximately U.S.$3.5 billion in foreign exchange per year for Mexico.[40] As these figures suggest, unless the process of industrialization in Mexico is accompanied by substantial measures to protect the environment and human health, "the maquiladora boom may be suffocated by rising transaction costs and a deteriorating quality of life."[41]

IV. THE BUSH ADMINISTRATION'S "HARMONIZATION" POLICY, WHICH HAS BEEN PURSUED IN RECENT TRADE NEGOTIATIONS, COULD SEVERELY UNDERMINE U.S. CONSUMER PROTECTION LAWS

A. The Bush Administration is Attempting to Impose Harmonization Through the Uruguay Round of GATT Negotiations

A significant thrust of Bush Administration trade policy has been to pursue "harmonization" of food safety regulations, the ultimate goal of which is to establish a single international standard for food safety. This policy has been pursued in both the Uruguay Round of negotiations on the General Agreement on Tariffs and Trade (GATT) and in the U.S.-Canada Free Trade Agreement. Because the international standards advocated by the Administration are less stringent than U.S. standards for many important pesticides and food additives, harmonization could compromise U.S. food safety regulations.[42] In addition, harmonization will place much of the power over setting food safety standards into the hands of secretive and politically unaccountable international bureaucracies.[43]

Already, Uruguay Round GATT negotiators have agreed in principle that harmonization should be the ultimate goal of trade negotiations.[44] Food safety standards would be set by an obscure U.N. body called the Codex Alimentarius Commission.[45] Harmonization would undercut U.S. pesticide regulations because 42% of Codex pesticide standards are less stringent than comparable U.S. standards.[46] Other U.S. policies, such as those banning carcinogenic pesticides from processed foods could also be endangered.[47] One U.S. regulator has stated that U.S. and international food safety standards will come into "direct collision" under harmonization.[48]

Further, Codex operates with little public participation or accountability to any elected official. The Codex standard-setting process is heavily influenced by the food industry. For instance, a recent U.S. delegation to Codex included representatives from chemical company giants such as Du Pont and Monsanto.[49] The USDA official in charge of the Codex delegation has said that "we get very close to a collegial atmosphere" in describing the relationship between these industry representatives and the regulators on the U.S. Codex panel.[50] In essence, harmonization cedes Congressional authority over food safety to secretive and unaccountable international bureaucrats.

Fortunately, pressure from Congress and from consumer advocates in many nations has prevented the U.S. harmonization proposal from being adopted in its most radical form. Currently, Uruguay Round negotiators have agreed that food safety standards must reflect Codex standards unless there is "reasonable scientific justification" for adopting a more restrictive standard.[51] This language may still severely undermine U.S. food safety standards because it cedes enormous authority to GATT dispute resolution panels to decide what is a "reasonable" scientific basis to justify government action. With chemical residues on food, where human exposure occurs to low levels of a substance over a long period of time, the scientific evidence about the dangers of a particular residue are rarely conclusive. Thus, industry could attack almost any standard, arguing that the available science is not sufficiently conclusive to justify government action, much as the tobacco industry has for many years attacked studies linking smoking and diseases like lung cancer and emphysema.

Should such a dispute arise, the public would have little or no opportunity to participate in the dispute resolution panel. GATT disputes are considered to be purely inter-governmental. Thus, there is no mechanism for public input into the decision-making process. Nor does the public have access to the information used by the panel to make its determination.

B. The Harmonization Requirement in the U.S.-Canada Free Trade Agreement Has Undermined Consumer Safety in Both Countries

A requirement for harmonization of standards was also inserted into the U.S.-Canada Free Trade Agreement. This experience demonstrates the dangers of harmonization. Canada, which generally has more restrictive pesticide regulations than the U.S., will be required to relax its standards by, for instance, adopting a less restrictive risk-assessment model and allowing registration of significantly more pesticides than it had before.[52]

An even more troubling experience has emerged with reduced meat inspections at the Canadian border. Under the U.S.-Canada FTA, the U.S. Department of Agriculture has adopted a

"streamlined inspection policy," in which inspection of meats imported from Canada was reduced from 100% of shipments to 7%. Further, importers are now notified beforehand which shipments will be inspected, and American inspectors are allowed to view only a small, designated portion of those shipments. The result, according to an investigation performed by the Government Accountability Project (GAP), a group that represents government whistleblowers, is that tons of tainted meat has made its way into the U.S. market. William Lehman, a USDA meat inspector working with GAP, says that he has found Canadian meat bound for the U.S. containing "pus-filled abscesses, metal shavings, ... , hair, ingesta, feces, and obvious pathology."[53]

C. *A Harmonization Requirement in the U.S.-Mexico FTA Could Undermine the Safety of the American Food Supply*

If, as seems likely, the Administration pursues harmonization in negotiations with Mexico, dangerous pesticides could increasingly show up in America's food supply. Mexico is already a major supplier of produce to the American market, accounting for imports of approximately 1.8 million metric tons fruits and vegetables in 1988.[54] Mexico is an especially important supplier of fresh vegetables such as tomatoes, cucumbers, peppers, and asparagus.[55] Unfortunately, Mexican farmers are allowed to use a number of pesticides that have been banned in the U.S. or which have never been registered for use in the U.S.[56] Pesticides that have been banned in the U.S. such as dieldrin, eldrin, and heptachlor, have been detected on imported produce from Mexico.[57] Harmonization of standards could force the U.S. to accept produce contaminated with these and other pesticides that would otherwise be denied entry into the U.S.

If, under the guise of reducing "barriers to trade," the FTA requires reduced inspection of imported agricultural products at the Mexican border, American consumers could face an increasingly dangerous food supply. Already, inspection of imported produce is often criticized as inadequate because many dangerous pesticides cannot be detected.[58] Reduced inspections could open the floodgates to dangerous foods.

IV. U.S. LEGISLATION DESIGNED TO PROTECT THE GLOBAL ENVIRONMENT MAY BE REJECTED UNDER GATT, SEVERELY HAMPERING GOVERNMENT EFFORTS TO ADDRESS PRESSING INTERNATIONAL ENVIRONMENTAL PROBLEMS

In response to the deaths of huge numbers of dolphins in the nets of foreign fishing vessels, Congress has amended the Marine Mammal Protection Act to ban the import of tuna from nations whose tuna fleets kill excessive numbers of dolphins. Mexico has recently challenged this law under GATT.[59]

If the Mexican challenge succeeds, it could limit the ability of governments to use trade as a means to enforce international agreements protecting all kinds of global environmental resources. Thus, international efforts to address a number of extremely pressing problems, ranging from global climate change and ozone depletion to conservation of ocean fisheries and preservation of endangered species, could be hamstrung.

V. INTERNATIONAL TRADE AGREEMENTS MAY UNDERMINE A VARIETY OF ENVIRONMENTAL LAWS

In addition to the instances cited above, international trade agreements have on a number of occasions prevented governments from responding to environmental problems in the most desirable fashion. For instance, recycling laws in Europe have been attacked, as have reforestation and pollution control programs in Canada.[60] Trade agreements could have an impact in many other areas, ranging from export controls on trees from U.S. old growth forests to export of hazardous chemicals.

CONCLUSION

The Fast Track approval process ties Congress' hands, preventing it from adequately addressing many issues related to environmental and consumer protection that may be embedded in trade agreements. Congress should therefore reject the Fast Track, and consider trade agreements under

rules that will allow it to address these concerns directly.

In addition, Congress should require that any trade agreement incorporate the following environmental safeguards:

oEnvironmental Impact Analysis: A environmental assessment of the trade agreement, laying out each of the possible alternative structures for the agreement and their potential environmental impacts in accordance with the requirements of the National Environmental Policy Act, should be undertaken before negotiations commence.

oPreservation of U.S. Environmental Laws: No trade agreement should open U.S. environmental laws to attack as "non-tariff barriers." Any "harmonization" of standards should set a floor, not a ceiling -- the ability of any nation to exceed the harmonized standard should be preserved.

oEnvironmental Subsidies Code: Trade agreements should include an "environmental subsidies code," which would allow imposition of countervailing duties where an industry fails to comply with applicable environmental laws -- a failure that amounts to a social-cost subsidy imposed upon the population at large. The amount of the duty would be measured by the economic advantage gained by that industry by its failure to comply with the applicable laws. This would level the playing field with industries who do comply with environmental laws.

oTrade Sanctions for Failure to Comply With International Environmental Agreements Should Be Preserved: Trade sanctions are probably the most effective means of enforcing international environmental treaties, such as the Montreal Protocol on ozone depleting chemicals. Any trade agreement should ensure that trade can be used as an enforcement tool for countries that refuse to comply with such international agreements.

oOpenness and Public Accountability: Trade negotiations are traditionally conducted in an extremely secretive manner. The negotiating process must be opened up to public scrutiny and public participation. Negotiations must include public representatives by, for instance, allowing environmental groups to act as observers at negotiating sessions concerning environmental issues. Implementation of the trade agreement must also be a public process. Therefore, specific mechanisms should be established to allow public participation in resolution of trade disputes, especially where important public policy concerns are involved.

Unless steps such as these are taken, free trade agreements may become stumbling blocks to achieving a safe and healthy environment.

NOTES

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[3] Cardenas, Misunderstanding Mexico, Foreign Policy, Spring 1990, at 123.

[4] Christian Science Monitor, Dec. 16, 1990, at C5.

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[8] See, e.g., Sanchez, Transboundary Resources Report, supra note 6, at 1; Recent Developments -- International Agreements -- Agreement Between the United States of America and the United Mexican States on Cooperation for the Protection and Improvement of the Environment in the Border Area, 25 Harvard Int'l L. J. 239, 244 (1984).

[9] Council on Scientific Affairs, American Medical Association, A Permanent U.S.-Mexico Border Environmental Health Commission, 263 J. A.M.A. 3319, 3321 (1990).

[10] Cardenas, supra note 3, at 123.

[11] See id., at 122-23; Tolan, Life in the Low-wage Boomtowns of Mexico, Utne Reader, Nov./Dec. 1990, at 46-47.

[12] Sanchez, Transboundary Resources Report, supra note 6, at 2.

[13] New York Times, March 31, 1991, at 16 (Attachment 1); see also The Journal of Commerce, March 14, 1991 ("[O]fficials gathered at a recent conference here privately acknowledged that lax enforcement of Mexican environmental laws was a selling point for U.S. companies looking to expand").

[14] Sanchez, Health and Environmental Risks of the Maquiladora in Mexicali, 30 Natural Resources J. 163, 185 (1990).

[15] Shrybman, International Trade and the Environment: An Environmental Assessment of Present GATT Negotiations, 17 Alternatives 20, 24-25 (1990).

[16] The Journal of Commerce, March 14, 1991.

[17] Council on Scientific Affairs, American Medical Association, supra note 9, at 3321.

[18] quoted in The Journal of Commerce, March 14, 1991.

[19] Sanchez, Transboundary Resources Report, supra note 6, at 1.

[20] See The Journal of Commerce, March 14, 1991.

[21] EPA documents showed that only 20 of more than 1600 maquiladoras shipped their hazardous wastes to the U.S. for disposal in 1988. Comparable documents from SEDUE suggested that the number was only 15. Sanchez, Natural Resources J., supra note 5, at 177 & n. 24.

[22] Id.

[23] New York Times, supra note 13, at 16.

[24] Council on Scientific Affairs, American Medical Association, supra note 9, at 3319-20.

[25] N.Y. Times, July 1, 1990, Sec. 6 (magazine), at 17.

[26] See New York Times, supra note 13, at 16.

[27] K. Burgesse & A. Lowenthal, Managing California-Mexico Relations: Challenges for State and Local Policy, at 19 (19__).

[28] The Texas Border: Whose Dirt? The Economist, August 18, 1990, at 20.

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[30] Council on Scientific Affairs, American Medical Association, supra note 9, at 3320.

[31] New York Times, supra note 13, at 16.

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[33] These figures were compiled by the Coalition for Justice in the Maquiladoras and presented at a news conference on February 11, 1991.

[34] Council on Scientific Affairs, American Medical Association, supra note 9, at 3320.

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[38] Id.

[39] See San Antonio Light, March 10, 1991, at 5.

[40] Financial Times, Nov. 26, 1990, at 34.

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[44] GATT Secretariat, Report of Negotiating Group on Agriculture, Working Group on Sanitary and Phytosanitary Regulations and Barriers, Draft Text on Sanitary and Phytosanitary Measures, at 2, 4 (November 20, 1990) (Doc. No. MTN.GNG/NG5/WGSP/7).

[45] See id. at Para. 11; Wysham, supra note 42, at 770.

[46] Wysham, supra note 42, at 771.

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[48] "U.S. Laws Will Hamper Harmonization Efforts," Food Chemical News, April 2, 1990, at 44.

[49] Christensen, supra note 42, at 3.

[50] Food Chemical News, supra note 48, at 45.

[51] GATT Secretariat, supra note 44, at Para. 10.

[52] Shrybman, International Trade and the Environment: An Environmental Assessment of the General Agreement on Tariffs and Trade, The Ecologist, January/February 1990, at 30, 33.

[53] Memorandum to Members of the Senate Committee on Agriculture and Forestry, Subcommittee on Agricultural Research, from Steven Masur, Staff Associate, Government Accountability Project (July 11, 1990) (Attachment 2).

[54] See U.S. General Accounting Office, Food Safety and Quality: Five Countries Efforts to Meet U.S. Requirements on Imported Produce, Rep. No. GAO/RCED-90-55, at 11 (March 1990).

[55] Id. at 16.

[56] Id. at 25-28, 32.

[57] D. Steinman, Diet for A Poisoned Planet: How to Choose Safe Foods for You and Your Family, at 322 (1990).

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Attachment 1

NEW YORK TIMES, MARCH 31, 1991, p.1A

Border Boom's Dirty Residue Imperils U.S.-Mexico Trade

By ROBERTO SURO
Special to The New York Times

NOGALES, Ariz. — Little more than a muddy creek when it starts flowing down a hillside in Mexico, the Nogales Wash passes by factories, shantytowns and noisy commercial streets before it reaches an invisible line add then suddenly becomes a swirling, stinking foreign policy problem for the Bush Administration.

When it crosses the border into the United States, the Nogales Wash is laced with toxic industrial pollutants and laden with untreated sewage. A public health emergency has been in force on the Arizona side for six months because the incidence of hepatitis there has climbed to 20 times the national average.

Pollution Threatens Trade Pact

The runaway pollution and accompanying health threats can be found in virtually any city along the United States-Mexico border, which has undergone an economic explosion in recent years with the construction of hundreds of highly profitable American-owned factories operating under special trade rules. The American owners pay very low wages to the nearly half a million Mexicans they employ and are not obliged to use expensive antipollution equipment.

The pollution problems have become so grave that they have emerged as a major issue and potential obstacle to the free trade agreement that President Bush wants to negotiate with Mexico as a way to compete economically with Europe and Japan. The Mexican Government's environmental effort is in its infancy, and it is struggling with standards and enforcement.

Influential environmental groups, like the National Wildlife Federation, and others who oppose the free trade agreement, like the A.F.L.-C.I.O., have contended that the contamination of

Continued on Page 16, Column 3

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the Nogales Wash and other pollution problems along the border are just previews of what will happen across Mexico if tariffs and other trade barriers are removed, igniting a rush to develop new industries.

Moreover, Democrats in Congress say they will resist efforts for a speedy approval of a free trade agreement unless the White House agrees to address environmental issues in the negotiations with Mexico. The White House has not said whether it will.

But in American border cities, even the most committed advocates of free trade insist that existing environmental problems should be addressed before free trade become a reality.

"We who breathe the air and drink the water along the border are the first to say we support free trade and that we also want a long-term plan for the environment," said William F. Joffroy Jr., chairman of the Border Trade Alliance, an organization that promotes economic development on behalf of local governments and businesses on both sides of the border.

The contamination along the border runs the gamut from raw sewage to wood smoke to highly toxic industrial chemicals.

Wide Environmental Damage

Across the Rio Grande from El Paso, for instance, firewood is the chief cooking and heating fuel for most of the 1.2 million residents of Ciudad Juárez, Mexico. Rubber tires are burned in kilns that make decorative bricks and tiles. Along with pollution from motor vehicles and industry, the smoke from these fires produces an acrid cloud over both cities under certain weather conditions.

Furniture-making plants and metal-plating shops that fled environmental restrictions in California now flourish in Tijuana, Mexico, producing toxic wastes from their use of solvents.

Recreational use of the Rio Grande below Laredo, Tex., has long been considered unsafe because its sister city in Mexico, Nuevo Laredo, dumps about 25 million gallons of untreated sewage into the river every day.

Much of the development and growth along the border came as a result of the 1965 agreement between the two countries that allowed American companies to set up operations on the Mexican side. The American factories and assembly plants, called maquiladoras, import almost all raw materials and export almost all products virtually exempt from tariffs and other trade restrictions.

Now Mr. Bush wants to go further with the trade agreement, which would cut out all tariffs and trade barriers between the countries. A negative vote by either house of Congress before June 1 would deny Mr. Bush the authority to present the legislators with a completed agreement to be accepted or rejected.

"Along the border we already know what happens when free trade brings rapid economic growth to Mexico," said Mayor Suzanne Azar of El Paso. "We've seen the benefits but we have also seen some very tough environmental problems that are directly caused by that kind of growth."

Growth Boomed in 1980's

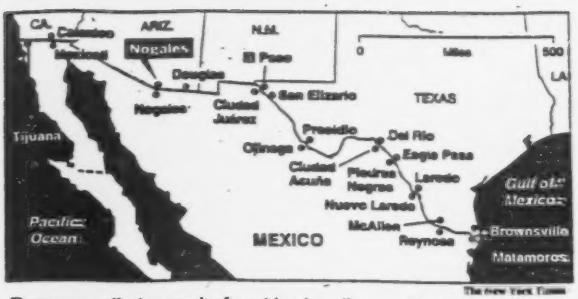
The American plants grew quickly after the rapid devaluation of the Mexican peso starting in 1982 brought the wage of a Mexican worker down to about 50 cents an hour. Since then the number of maquiladoras has jumped to nearly 1,900 from about 300. They produce almost anything that involves a lot of labor, from carburetors to designer sun glasses.

On the outskirts of Nogales, a cluster of the plants sits on a hilltop. Big, box-like buildings, they do not have any smokestacks or cooling towers because they are used for assembling components rather than manufacturing parts or processing raw materials.

Down the hill, the neat industrial architecture gives way to ramshackle dwellings fashioned from cardboard and scraps of wood taken from the plants' trash bins. These are the homes of maquiladora workers, most of them peasants who have migrated from Mexico's agricultural regions in search of steady pay.

In about a dozen shacks the most common building material is a tan cardboard that once contained polyvinyl chloride. Written on the cardboard walls are warnings that the former contents could release hazardous fumes.

"This is some of the best stuff because it is real thick and keeps the rain out," said Juan Ramos, standing outside a two-room structure that served as home for him and five relatives. All had worked in the plants. Their water supply was stored in a 55-gallon drum that was also refuse from the plants. A bright yellow and orange label identified its former contents as a fluorocarbon solvent whose vapors are fatal if inhaled.



Runaway pollution can be found in virtually any city along the United States-Mexican border. Hundreds of American-owned factories operate under special trade rules in Mexican border cities, where expensive antipollution equipment is not required.

Sewage becomes a foreign-policy problem.

$27 for 40 Hours of Work

The starting wage for a maquiladora worker is about 82,000 pesos, or about $27, for a 49-hour week. More experienced workers receive as much as 140,000 pesos, or about $47, in addition to fringe benefits like a subsidized lunch.

Catalina Denman, a public health specialist at the Colegio de Sonora, a research institute, who has conducted numerous studies in Nogales, had this to say about the situation: "In the course of just a few years the maquiladoras brought the industrial revolution and all that goes with it to a region that was completely unprepared for it.

"In the short term this is a positive development because a job is better than no job and because living conditions where these people came from were also terrible. In the long term, though, what happened in Nogales could happen all over Mexico if a free trade agreement produces the same kind of fast development with no real attention to human needs."

Behind Mr. Ramos's home was one of the communal outhouses used by residents of the shantytown. A little ditch from the outhouse led to a bigger ditch that flowed to a creek in the bottom of a ravine that flowed into the Nogales Wash, stream that grows in size with the seasons. Like virtually every other Mexican border town, Nogales does not have any sewage treatment plants.

After crossing the border the wash is contained within concrete embankments as it flows through the center of Nogales, Ariz. High concentrations of human wastes in the wash are blamed for the hepatitis epidemic that produced 58 cases and many suspected cases last year, said Patrick Zurick, deputy director of the Santa Cruz County Health Department.

Contamination of Aquifer

Some of the cases involved people who had direct contact with the water where it flows through a popular recreational area outside of town or by children who skateboard on the embankments. Others apparently involved eating establishments and supermarkets along the wash where flies carried the disease from the water to food.

More ominous, Mr. Zurick said, is the contamination of an aquifer that runs on both sides of the border. Numerous homes and commercial establishments draw water from private wells tapped into the aquifer, he said, including several large warehouses where fruits and vegetables imported from Mexico are iced down and prepared for shipment throughout the world. In October the wells in those warehouses were declared public water supplies, by the county, requiring that they be chlorinated and tested regularly.

Across the border, Ciudad Juárez dumps all of its raw sewage into a canal that parallels the Rio Grande. In towns on the American side of the Rio Grande, the incidence of hepatitis from contaminated well water is so acute that a recent study in one town, San Elizario, Tex., showed that everyone had been exposed to hepatitis at least once by the time they were 20 years-old.

Human wastes are not the only troublesome substances that have seeped from the Nogales Wash into the aquifer, Mr. Zurick said.

Last year, government and private health experts on both sides of the border repeatedly tested numerous water supplies in the Nogales area and found widespread contamination by the kind of chemicals that are normally found in industrial solvents and that are suspected or known carcinogens.

Although only a few samples showed unsafe levels of contamination, the results showed that the pollution was spreading through the aquifer, said Dick Kamp, director of the Border Ecology Project, a research and policy studies organization that participated in the water study. It seemed to originate in the industrial zone of Nogales, Mexico, where there are many Mexican-owned workshops as well as the American plants.

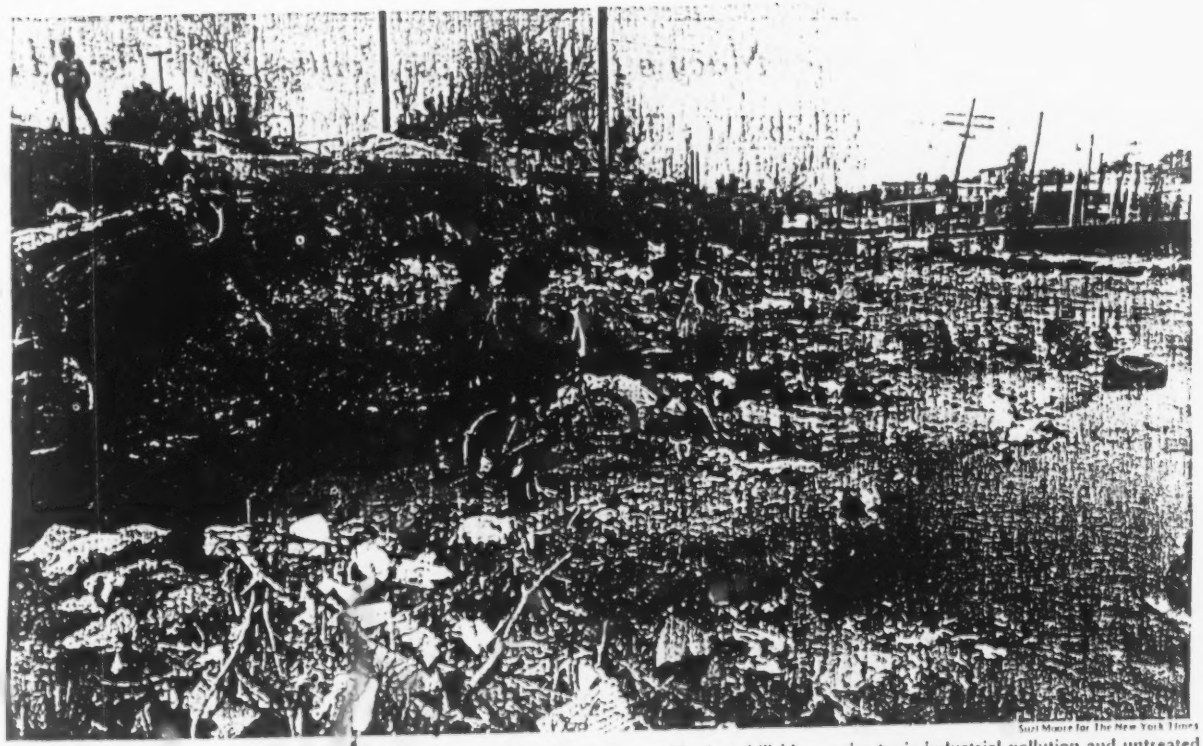
"This is the most extensive study of water pollution done anywhere along the border," Mr. Kamp said, "and what it shows is that we have a problem but that so far we don't know the source of it or its full scope."

More than 1,000 American-owned plants generate hazardous waste but only 30 percent of these have complied with Mexican rules requiring them to file information on how they handle those wastes, according to a report issued last November by the Secretariat of Urban Development and Ecology, the Mexican Government's equivalent of the Environmental Protection Agency. Only 19 percent of the plants using toxic materials could show that they had disposed of wastes properly, the report concluded.

Mexico's rules governing the use of hazardous materials only went into effect in 1988. Most of the regulations are just as strict as they are in the United States, but standards for specific substances and the enforcement mechanisms are still being established.

"The U.S. isn't able to handle hazardous wastes efficiently and so you can't expect it of Mexico where this problem is just now being addressed," said Joe King, president of the Meribah Corporation, an El Paso-based concern that specializes in waste disposal on both sides of the border.

"Protecting the environment has become a political priority in Mexico," Mr. King said, "it has popular support. But the infrastructure is totally missing and building it will involve astronomical costs and a lot of time."



Suzi Moore for The New York Times

Rampant pollution and accompanying health threats along the United States-Mexico border raise potential obstacles to a free trade agreement between the two countries. The Nogales Wash, which originates on a Mexican hillside, carries toxic industrial pollution and untreated sewage across the border into Nogales, Ariz. Above, a portion of the river in Nogales on the Mexican side.

Border Industry's Nasty Byproduct Imperils Trade

25 E Street, N.W., Suite 700, Washington, D.C. 20001
(202) 347-0460 • Fax (202) 347-0482

Attachment 2

Memorandum

To: Members of the Senate Committee on Agriculture and Forestry, Subcommittee on Agricultural Research

From: Steven Masur, Staff Associate

Date: July 11, 1990

Re: Reinspection of Canadian Meat and Poultry Products entering U.S. Commerce.

Over the last year, the USDA has systematically gutted inspection of Canadian imported meat and poultry products so that inspection amounts to little more than a spot check of unrepresentative samples picked by Canadian meat packers. The USDA is moving toward getting rid of inspection of Canadian meat products altogether because the agency views it as a barrier to the Free Trade Agreement between the U.S. and Canada. The agency justifies eliminating border inspection because it views Canadian meat inspection and U.S. meat inspection as equivalent. The Government Accountability Project has received significant evidence to the contrary from whistleblowers who are eyewitnesses to the filth and contamination that crosses the border daily. The more the agency plays down the dangers of discontinuing border inspection, the more proof whistleblowers provide that it must be continued.

Under the present watered-down inspection system, contaminated and diseased meat comes across the border every day. The USDA is currently investigating complaints lodged by citizens who claim to have gotten sick as a result of eating contaminated meat imported from Canada. In addition, an increasing number of dangerous, possibly fatal diseases have been detected on the meat at border inspection stations. Schneider's meats tested positive for listeria monocytogenes spurring a recall of listeria contaminated product. Listeria, which carries a 30% fatality rate for children, young mothers and people with immune deficiencies, was implicated in a Canadian woman's death earlier this year. Listeria also tested positive in meat samples from Molteni Food Ltd.'s Establishment 224 in Belleville, Ontario. In all, there have been four positive listeria tests at border inspection facilities already this year. Some of these have resulted in massive recalls. Each instance that is reported is proof that discontinuing border inspection would pose significant public health risks.

Unfortunately, the Canadian packers have finally learned how to beat the system. Since only 1 in every 15 trucks is marked for inspection, and the USDA notifies the Canadians about which truck this will be, Canadians can choose their own samples. In fact, under the new procedures, the Canadians are supposed to prepare the samples for inspection and present them near the rear of the truck on top of a plastic cover, separate from the rest of the load. Canadian packers need only pick the cleanest samples of the load to insure that the load will pass into the United States and that the company will have a clean record on paper. This clean record will help them avoid a tightened inspection criteria, when more samples are checked, if contamination is found.

Inspectors report that for the last few months, a packing company whose product had been recalled for listeria contamination registered 0 defects on fresh product exported into the United States. Because of the listeria recall and previous high levels of contaminated meat from this company, their recent record of 0 defects suggests that the samples they choose are cleaner than the rest of the load.

As a result, USDA inspectors decided to take a closer look. An inspector picked a few samples from under the plastic cover that had not been "prepared" by the Canadians for inspection. Out of 18-20 samples, 7 critical defects were found. When the supervisor was informed, he advised the inspector to put a hold on the load and check the rest of the meat. USDA officials in Washington reversed this instruction. They directed the inspector to trim the 7 critical defects that were found and send the entire load on into the United States. In addition, they instructed inspectors to inspect only the official, Canadian-prepared samples in the future. These instructions suggest that the USDA administrators are effectively abdicating the agency's food safety responsibilities.

The method by which the agency handles testing and recall of meat products is fundamentally flawed. When a sample is taken for lab testing for chemical residues, or microbiological defects such as listeria, the rest of the load is shipped out to consumers. If the tests come up positive, chances are that consumers will already have eaten the diseased product, before an alarm can be raised.

Even with watered-down meat inspection procedures, USDA Import Inspectors are receiving unprecedented levels of contamination from Canadian suppliers. In January 1990, at inspection facility I - 47 in Sweetgrass, Montana, USDA Import Inspector William Lehman inspected 677,723 pounds of meat and refused entry to 303,425 pounds. This represents a 45% refused entry rate for the month of January. In 1989, Mr. Lehman refused a total of 1,990,744 pounds of meat for the year. Mr. Lehman reports that in previous years the levels were not nearly this high. When Mr. Lehman submitted the enclosed affidavit, Intercontinental Packers (IP) had been placed under intensified inspection due to shipping contaminated product into the U.S.A. Since the submission of Mr. Lehman's

affidavit, Gainer's Packing Co. Establishment 18 B, Cargill Foods Establishment 93, Centennial Packing Co. Establishment 161 have all benn placed under intensified inspection for the same reasons. These reasons include puss-filled abcesses on the meat, pieces of hide and hair, feces, ingesta, dirt include pathology. Another inspector reports finding broken glass on the floor of the truck carrying meat. Glass shards had cut into packages of processed meat and were embedded in the product.

It has been reported that even Canadian inspectors themselves complain how Canada's Frequency of Inspection Level (FOIL) system is inadequate. The FOIL system closely resembles Discretionary Inspection (DI), an inspection system that was discarded in the United States because of the high levels of filth and contamination that it allowed through the system. The system relies on the company's quality control inspectors to insure that the meat leaving the plant is not contaminated. Government inspectors monitor the company inspectors. In both the FOIL and DI systems government inspectors have complained that company inspectors pay more attention to the profit derived from the meat than its cleanliness. Each ounce of diseased or contaminated meat that is trimmed equals that much less profit. If DI was discarded in the United States, there seems to be little justification to accept, without reinspection, meat that has been inspected under a similar system from Canada. This would be applying a lower standard for imported meat than we require for our own domestic meat and meat products.

If all Canadian companies had a good track record of safe, wholesome, uncontaminated meat and poultry exports, the USDA's experiment to discontinue border inspection might be justified. But with refused entries of 20% and more, discontinuing border inspection is experimenting with the health and indeed the lives of consumers.

Every day the Government Accountability Project receives more horror stories about contaminated and diseased meat coming across the border from Canada. Newspapers in both the United States and Canada are writing an increasing number of stories on the issue. Many of these disclosures come from USDA inspectors who are afraid to voice their opinion or make disclosures within their own agency for fear of reprisals. Inspectors and supervisors alike are afraid to bring up clear violations in health and safety regulations that directly affect public health. The USDA administrators have made it clear that these opinions or disclosures are neither wanted nor appreciated. Inspectors who speak out about the rotten meat that crosses the border could find themselves transferred to the moral equivalent of Siberia.

Inspectors believe that the unwillingness of the USDA to acknowedge the problems associated with gutting Canadian import inspection stems from the fear that a meat scandal might ruin the Free Trade Agreement between Canada and the United States. This fear may have been spurred on by the EEC's ban on US meats due to

public health violations. In any case, ignoring threats to the public health is no way to back up the legitimacy of a Free Trade Agreement.

Import border inspection does not necessarily have to be a barrier to the Free Trade Agreement. It is simply an issue that must be addressed, not ignored. A suitable solution that insures the health and safety of the public must be found. The food safety concerns of discontinuing gutting or discontinuing Canadian import inspection deserve attention during tommorrow's hearing.

Sincerely,

Steven Masur
Staff Associate

Distilled Spirits Council of the United States, Inc.

April 10, 1991

Mr. Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
Room 1102
Longworth House Office Building
Washington, DC 20515

RE: Hearing Concerning the President's Request for Extension of Fast Track Agreement Implementing Authority

Dear Mr. Leonard:

The Distilled Spirits Council of the United States, Inc. (DISCUS) is a national trade association representing the suppliers of over 85% of the distilled spirits sold in this country. DISCUS members export a great volume of distilled spirits to markets around the world and confront a myriad of tariff and non-tariff barriers to trade in many countries. DISCUS favors a reciprocal reduction of tariffs and the elimination of barriers in all markets. In that regard, DISCUS supports the extension of fast track trade agreement implementing authority. With appropriate consideration and protections, we believe the successful culmination of the Uruguay/GATT Round and a U.S./Mexico Free Trade Agreement will represent positive steps to ensure free and equitable trade for distilled spirits in all markets.

DISCUS has been active in urging reciprocal reductions in import tariffs in the GATT/Uruguay Round. At the request of DISCUS, distilled spirits products (HTS 2207 and 2208) are part of the zero for zero market access initiative in the Uruguay Round. Distilled spirits also are in the Agricultural Round of the GATT negotiations; such reductions, however, may not be product specific. Thus, to ensure reciprocal reductions in tariffs, DISCUS also requested to be part of the zero for zero market access negotiations. In that regard, we have provided our negotiators in Geneva with a prioritized list of key countries that should be subject to the zero for zero market access initiative and provided them in the same regard with information concerning the non-tariff barriers in those countries.

1250 EYE STREET, N.W., SUITE 900 WASHINGTON, D.C. 20005 (202) 628-3544
FAX: 202-682-8888

The International Federation of Wine and Spirits (FIVS), an organization consisting of 56 national associations in the spirits and wine trade from 25 countries and the Union Europeenne des Alcools, Eaux-de-Vie et Spiritueux (Union), an organization representing 48 national associations of producers of alcohol beverages within the European Community, fully endorse and support the zero for zero market access initiative. The Executive Committee of FIVS passed at its Paris meeting on October 24, 1990 a resolution strongly supporting this initiative and urged those countries involved in the GATT/Uruguay Round negotiations to seek significant reductions in the tariff and non-tariff barriers faced by distilled spirits in world markets. This resolution was reendorsed by the FIVS Executive Committee on February 20, 1991. Similarly, the Union by letters dated November 14, 1990 to Messrs. Dugimont, Abbott and Tran Van Thinh of the European Community conveyed its strongest support for the zero for zero approach and urged the Commission to negotiate to that end with the United States and any other country making a similar approach.

We believe that significant tariff reductions for distilled spirits can be achieved in the Uruguay Round and thus reported as a successful achievement of this round of the GATT negotiations. Support from FIVS and from the Union evidence that success can be found in this area. The U.S. spirits industry, as well as trade in distilled spirits generally, has much to gain through the successful completion of the zero for zero market access negotiations. Cross-border and international support by and from alcohol beverage producers for the United States' zero for zero market access initiative in the Uruguay Round is unprecedented and represents a major achievement for the industry and international trade.

DISCUS also is very interested in the negotiation of a possible U.S./Mexico Free Trade Agreement. Enclosed is a copy of the comments we previously filed with the International Trade Commission concerning the implications for the U.S. distilling industry of a U.S./Mexico Free Trade Agreement. In any U.S./Mexico Free Trade Agreement, the United States must ensure that, among other things, the Agreement's provisions respect all federal and state laws regulating beverage alcohol so that the necessary control over product and the protection afforded trademark owners to utilize territorial licenses for the distribution of their goods are not abandoned.

Regarding any reduction in or elimination of duties in the course of negotiating a U.S./Mexico Free Trade Agreement, DISCUS recommends phased-in tariff reductions to minimize the economic dislocation that would occur given the amount of investment by U.S. companies in products imported in bulk from Mexico into the United States.

Concerning that issue, please find enclosed a copy of the comments we filed with USTR opposing the petition by Mexico to grant GSP status to tequila in containers holding not over four liters.

We would like these appended comments, as well as this letter, to be made part of the Ways and Means Committee's hearing record concerning the President's request for extension of fast track trade agreement implementing authority which DISCUS fully supports.

Sincerely,

F.A. Meister
President/CEO

FAM:wd

Enclosures

Distilled Spirits Council of the United States, Inc.

March 20, 1991

Mr. Kenneth R. Mason
Secretary
United States International Trade Commission
500 E. Street, S.W.
Washington, DC 20436

RE: Investigation No. 332-307/Probable Economic Effect on U.S. Industries and Consumers of Free Trade Agreement Between the United States and Mexico

Dear Mr. Mason:

DISCUS is very interested in the negotiation of a possible U.S./Mexico Free Trade Agreement. The enclosed comments previously filed with the International Trade Commission concerning the implications for the U.S. distilling industry of a U.S./Mexico Free Trade Agreement are resubmitted to the Commission for purposes of the International Trade Commission's Investigation No. 332-307. In any U.S./Mexico Free Trade Agreement, the United States must ensure that, among other things, the Agreement's provisions respect all federal and state laws regulating beverage alcohol so that the necessary control over product and the protection afforded trademark owners to utilize territorial licenses for the distribution of their goods are not abandoned.

Regarding any reduction in or elimination of duties in the course of negotiating a U.S./Mexico Free Trade Agreement, DISCUS recommends phased-in tariff reductions to minimize the economic dislocation that would occur given the amount of investment by U.S. companies in products imported in bulk from Mexico into the United States. Concerning that issue, please find enclosed a copy of the comments we filed with USTR opposing the petition by Mexico to grant GSP status to tequila in containers holding not over four liters.

We would like these comments to be made part of the Commission's hearing record regarding Investigation No. 332-307.

Sincerely,

F.A. Meister
President/CEO

FAM:ss

Enclosures

1250 EYE STREET, N.W., SUITE 900 WASHINGTON, D.C. 20005 (202) 628-3544
FAX: 202-682-8888

Distilled Spirits Council of the United States, Inc.

December 10, 1990

Mr. Kenneth R. Mason
Secretary
United States International Trade Commission
Washington, DC 20436

RE: Investigation No. 332-297/Likely Impact of a Free Trade Agreement with Mexico on the United States

Dear Sir:

I am writing on behalf of the Distilled Spirits Council of the United States, Inc., (DISCUS), a national trade association representing the suppliers of over 85% of the distilled spirits sold in this country, in response to the International Trade Commission's request for information concerning the implications for the United States of a U.S./Mexico Free Trade Agreement. DISCUS members export a great volume of distilled spirits to markets around the world, including Mexico. DISCUS and its members always have supported free and unfettered access to markets around the world, as well as harmonization of technical and product standards in such markets to ensure the free flow of trade. In the case of a contiguous market such as that of Mexico, it is even more important to align the various requirements, standards and practices pertaining to the U.S. spirits industry to ensure the integrity of the U.S. regulatory system and the elimination of non-tariff barriers that now impede access to the Mexican marketplace.

Distilled spirits are a highly regulated consumer product on both the federal and state level in the United States. In that regard, any U.S. free trade agreement with Mexico should contain requirements similar to those imposed in the United States in terms of product standards, product approvals, and the distribution and marketing of product to ensure an orderly market and fair access of U.S. products into the Mexican market. The Bureau of Alcohol, Tobacco and Firearms, the regulating agency for alcohol beverages, has established an extensive system of regulations pertaining to, among other things, product formula approvals and testing procedures. Any free trade agreement should give accord to those regulations.

Any such free trade agreement also should not supersede any laws or regulations passed in the United States pursuant to the 21st Amendment for goods imported into the United States from Mexico. These particularly would include state statutes and regulations concerning primary American source laws, which require wholesalers to purchase product from the primary American source of supply or his designated agent,

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FAX: 202-682-8888 · TELEX: 710-822-9449

thereby preventing out-of-state-wholesalers from transshipping goods to an in-state retailer without passing through, or "coming to rest" or paying taxes via an in-state wholesaler. These laws promote, among other things, the orderly collection of alcohol beverage taxes by the states by confining distribution to in-state wholesalers. They create an audit trail, thereby reducing the recordkeeping and enforcement burdens on state agencies.

Primary source regulation also promotes competition and efficient marketing in the liquor business. Through primary source laws, the majority of license states prohibit non-resident suppliers from selling to wholesalers in the state unless the supplier is the primary American source for the brand. Primary source laws are necessary to preserve the designated wholesaler system of distribution in the distilled spirits industry. This industry, like most others, uses a designated wholesaler system for promoting, merchandising and distributing its products, providing adequate information and services to retailers, and ensuring the widest choice of quality products for consumers. The system fosters competition between brands and fosters individual initiative, while ensuring consumers that a wide range of products will be available. The critical underpinning of the viability and effectiveness of such a system is the guarantee that only wholesalers designated by the supplier will distribute each brand. Without that guarantee, no wholesaler has the incentive to make the necessary investments to promote and distribute the product.

Without primary source laws, alcohol beverages can be brought into the state from any number of sources and by any number of persons. With primary source regulation, states know who is authorized to bring each brand into their state and thus provide an easy audit trail for the state's revenue authorities to account for all beverages brought into the state and to ensure the collection of taxes.

Any free trade agreement also should recognize the rights of brand owners and importers to establish territorial licenses, by country, for their product. These particularly are important when a brand owner has different national distributors in the United States and Mexico and also when subdistributors in one country may desire to export goods into the second country even though their supplier/licensee is not authorized by its contract with a brand owner to do so. Therefore, the free trade agreement should avoid the result whereby local distributors are allowed to transport goods into another country where a brand owner has franchised distributors in that country. In that regard, the use and recognition of certificates of origin should be incorporated in any free trade agreement with Mexico.

Mr. Kenneth R. Mason
December 10, 1990

Any free trade agreement with Mexico should afford an opportunity for improved protection of intellectual property rights. The experience in the industry has been that the current Mexican system encourages trademark piracy by allowing imitators to register well-known foreign marks in derogation of the rights of the true owner. Any free trade agreement should encompass a mutual recognition of intellectual property rights.

Any free trade agreement also should remove the excessive documentation and ancillary fees now required by Mexico for imported product. There currently is a lengthy and burdensome process to obtain an import license. For example, a declaration of value for all imports, which consists of a complex 2-page inquiry form, must be provided with each imported consignment. Certificates of analysis, free sale and the technique of manufacture are required for registration of a brand, and a certificate of analysis also is required with each shipment.

All brands of alcohol beverages must be registered with the Ministry of Health. Such registration must be renewed annually and requires an inordinate amount of documentation, specimen labels, samples, and local analysis. The local analysis procedure requires the submission of a one liter sample for local analysis before a brand is registered. Product registration is obtained when three sample bottles for each shipment are submitted to the Mexican Ministry of Health. Photographs of the bottles also are required. Several government offices intervene in the inspection process (e.g., Secretary of Health, Secretary of Commerce, Secretary of Agriculture and Water Resources). All documentation required by the Ministry of Health and the Ministry of Finance must be notarized by a U.S. notary and then presented to a Mexican consulate for further verification and payment of fees (consularization). The procedure for approval takes an inordinate amount of time. It is our understanding that the quickest registration takes 6 months to complete.

In addition, the Mexican officials are charging fees to U.S. exporters for registration and licensing requirement procedures. We understand that the registration fee charged by the Ministry of Finance for imported product is much higher than that charged for domestic product. In addition, registration fees for imported products include a 100% surcharge in order to obtain the obligatory health registration and income tax registration number from the Secretary of Health.

In addition to the number of certification and documentation barriers that remain in place in the Mexico market, import permits still are required: in some cases, the import permit relates to how much of the same commodity companies purchase on the domestic market. Under its GATT accession proposal, Mexico agreed to eliminate these permits by the end of 1987 or justify them. Neither of these steps has been taken. All imports are subject also to currency restrictions, such as Mexico's controlled rate of

exchange, which is lower than the free market rates. These matters also should be addressed in any free trade agreement.

The Mexico labeling requirements should be aligned with the U.S. requirements regarding exports. The current Mexico labeling requirements require that the front label must be in Spanish and the back label must include in Spanish the health registration number obtained from the Ministry of Health, the importer's name and address, the exporter's name and address, and the income tax registration. In any free trade agreement, these requirements should be aligned with the U.S. requirements regarding labeling of product for the export market.

We welcome the opportunity to work with you to ensure an equitable and fair free trade agreement with Mexico. Tariff and non-tariff barriers place unfair and discriminatory burdens upon the competition among goods from other countries and, absent compelling circumstances, should be eliminated wherever possible to provide a basis for free and unfettered trade. We recommend phased-in tariff reductions in any free trade agreement with Mexico to minimize the economic dislocation that would occur given the amount of investment by U.S. companies in products imported in bulk from Mexico into the United States. Concerning that issue, please find enclosed a copy of comments we filed with USTR opposing the petition by Mexico to grant GSP status to tequila in containers holding not over 4 liters.

Sincerely,

F.A. Meister
President/CEO

FAM:wd

Attachment

Distilled Spirits Council of the United States, Inc.

October 17, 1990

GSP Subcommittee
Office of the U. S. Trade Representative
600 17th Street, NW
Room 414
Washington, DC 20506

RE: Federal Register notice of August 24, 1990 announcing the consideration of petitions accepted in the 1990 GSP annual review.

Gentlemen:

The Distilled Spirits Council of the U.S., Inc. (DISCUS), whose members import approximately 85% of the bulk tequila entering the U.S., oppose the petition by Mexico to grant GSP status to tequila in containers holding not over 4 liters. One DISCUS member is in favor of granting GSP status to bottled goods.

While distilled spirits as a whole has been declining in sales at approximately 2% per year, tequila as a separate unit has held its own in sales and actually has shown an increase in a declining distilled spirits market in recent years. This growth is attributable to investment in production and marketing facilities by U.S. bottlers of bulk tequila. Continued investment and employment in the U.S. is based on the present tariff schedule. For these reasons and to maintain product consistency and to protect brand images, the U.S. bottlers of bulk tequila would not wish to change their established and successful bottling procedures.

DISCUS would appreciate being put on the record as opposing the Mexican petition.

Sincerely,

F. A. Meister
President CEO

FAM:sas

EnviroMD

5445 E. FORT LOWELL ROAD • TUCSON, ARIZONA 85716 • (602) 881-1000 • FAX (602) 327-1572

April 17, 1991

FEDERAL EXPRESS

Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
c/o Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
Room 1102
Longworth House Office Building
Washington, D.C. 20515

Re: Fast Track Authority,
North American Free Trade
Agreement

Dear Representative Rostenkowski:

This letter is presented to the Committee on Ways and Means in support of an extension by Congress of "fast track" authority to the Executive Branch to enable the Administration to negotiate a North American Free Trade Agreement (NAFTA) with Mexico. Those of us living along the U.S.-Mexico border are presently experiencing a fluid bi-national flow of people, ideas, services, trade, and culture which we expect will continue, and are now working cooperatively to improve the border economy, educational opportunities, the environment, and the public health. There is a very active dialogue among institutions, organizations, and individuals representing community action groups, education centers, companies, environmental groups, and local government resulting recently in the formation of a network with nodes in Tijuana/San Diego, Hermosillo, Nogales, Agua Prieta, Tucson, and Naco. At a grassroots level the possibility of NAFTA is viewed with opportunity and hope.

The strong opposition that has been voiced by organized labor and some environmental groups against extending "fast-track" authority is not shared by most of us along the border. While we recognize that conditions and standards of living are sub-optimal along the border, the residents on both sides are actively involved in building relationships and economies that will provide the resources needed to alleviate the needs. NAFTA is viewed by most of us as an opportunity to accelerate

the process we have cooperatively embarked on to improve border economies and living conditions.

The argument presented by organized labor is based on a fear of losing jobs, but the competition to be feared by labor should not be on this continent but rather that existing in Asia and perhaps Eastern Europe. The open markets that NAFTA would create will result in a net increase and redistribution of jobs in the United States in response to increased demand by Mexico for U.S. goods and services.[1,2] The lowering of economic barriers to trade by Mexico since 1986 has doubled annual U.S. exports to date with a net increase of 320,000 U.S. jobs.[3]

EnviroMD is a multidisciplinary occupational health and environmental consulting company headquartered in Tucson, Arizona. We are cognizant of the environmental concerns raised, and are part of the active environmental dialogue that is currently taking place along the border. The environmental groups along the border are not opposed to "fast-track" *per se*, but see NAFTA as an opportunity to focus attention on existing conditions, and as a means to empower both nations, through a cooperative effort, to develop the stable economic base necessary to address the present and future needs. Those living along the border are crying out to Congress to extend the Congressional authority for "fast-track" negotiations but are also crying out to be included in the process that will take place by the Executive Branch in the months or years to come. The challenges that face the north american continent as we approach the beginning of a new century are many, and NAFTA will present some of its own as it is implemented. A brief discussion of these challenges are presented in the accompanying comments labeled as Exhibit A.

Mexico and its people are presently most receptive for a cooperative relationship and are extending their hand to the United States. We have joined hands with our northern neighbor, Canada, and it is time to extend our hand to Mexico and move toward a trilateral partnership on the north american continent. This partnership, while framed in economic terms, offers a vision of the future rich in terms of culture,

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[1] Policy Economics Group, KPMG Peat Marwick. Free Trade Agreement economic study commissioned by the U.S. Council of the Mexico-U.S. Business Committee. Washington, D.C., February 1991.

[2] Statement of Ambassador Thomas O. Enders, representing the U.S. Council of the Mexico-U.S. Business Committee, to the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, February 28, 1991.

[3] Testimony of Ambassador Carla A. Hills, United States Trade Representative, before the Committee on Ways and Means, United States House of Representatives, March 12, 1991.

environmental preservation, cooperative resource development, and an improved standard of living on a broad scale.

In conclusion, let me echo the prevailing sentiments along the border, and respectfully request each and every member of the Committee on Ways and Means, U.S. House of Representatives, to support without reservation, the extension of "fast-track" authority.

I wish to thank the Committee on Ways and Means for permitting this opportunity to express views on the importance of the extension of "fast-track" authority and the negotiation of the North American Free Trade Agreement.

Very truly yours,

Steven Pike, M.D., M.Sc.
President & C.E.O.

The Continental Community

Steven Pike, M.D., M.Sc.[1] [2]

Introduction

On April 17, 1978, Dr. Herbert Abrams had the honor of presenting the Baz-Wegman Lecture to the U.S. Border Health Association meeting at Reynosa, Tamaulipas, Mexico on the topic of occupational and environmental health problems along the U.S.-Mexico border. The border has developed considerably since then, but some of the observations made by Dr. Abrams are still relevant today. The proposed North American Free Trade Agreement (NAFTA) offers great hope and promise for creating trilaterally, the wealth necessary to make great progress in alleviating the difficulties present along the border. As we focus on these needs we should not fail to interpret our observations within a realistic frame of reference. In this regard, comments made by Dr. Abrams in the opening paragraphs of his presentation twelve years ago are worth recalling:[1]

> *"The subject of occupational and environmental health is fundamental, for we know that environment is the chief determinant of health. Occupation is the key to the environment in which we live. It determines our income, our social status, our standards of living and all that this means; nutrition, housing, lifestyle, medical care, all of which is so fundamental in our health and life expectancy.*
>
> *. . .If we are to talk about the hazards of work, we must first acknowledge that unemployment carries with it the most hazardous life of all. Unemployment results in a greater incidence of suicide, homicide, drug addiction and mental illness. Meaningful work is what all men and women need. As we examine the history of civilization, we see that it follows the evolution of how man works and his relationship to work. Most countries have come through periods of slavery and many, if not most, countries have overcome feudalism. Nations can claim to be advanced only if labor is free and is satisfying."*

These words should temper our zeal in criticizing the many environmental, labor, and occupational health conditions that confront Canada, Mexico, and the United States lest we inadvertantly derail congressional fast track authority for NAFTA, and suppress the ability to extend an improved standard of living throughout the north american continent. Eliminating artificial barriers to trade and linking the three north american nations in a cooperative market, will create the stabalizing forces necessary to increase real per capita income, jobs, and the resources to remediate existing environmental problems and prevent future environmental degradation. This outcome is not automatic, but requires careful planning and implementation based on an understanding of a number of complex and interrelated conditions, which are discussed briefly in the following paragraphs.

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[1] Dr. Pike is President and C.E.O. of EnviroMD, Inc., a multidisciplinary occupational health and environmental consulting firm located in Tucson.

[2] Presented at *A Continent Ascendant, North America in the 1990s*. A conference convened in Denver by: The Center for the New West, Fraser Institute, and the Miguel Aleman Foundation, April 10-11, 1991.

Comparisons and Contrasts

As we consider the need to strengthen economic, social, and political links among the three nations of North America, we must recognize that economics, politics, culture, health, and the environment are mutually inseparable and affect each other. In this context the concept of sustainable development emerges as a dominant theme. The political decision to remove barriers to trade in North America, as a protective reaction to expected economic pressures from trade alliances in Europe and Asia, entails new responsibilities and commitments to the populations and environments of all three nations. The imbalance in the degree of development that now obtains between the United States and Mexico creates pressures for equilibrium of the standard of living that will have profound effects on both countries. Parity may never be achieved, but the gap will narrow over time if factors critical in determining whether a desirable outcome prevails are considered, and the will to control the forces that shape our common future is defined. The factors implicated are many, but several public health issues should be considered and understood as integral to successful sustainable economic development.

The U.S.-Mexico demographic and cultural differences are significant in terms of numbers, growth, distribution, language, income, education, training, and health. Free trade will affect the migration of populations between rural regions and urban centers in Mexico, as economic development creates new job opportunities. This population migration will affect health of existing and new communities as workers and their families redistribute to live near their jobs. These demographic shifts impose additional demands for food, water, housing, sanitation, sewage treatment and disposal, education, transportation, and health care. These forces operate in the United States as well, but the U.S. has an infrastructure, including education, transportation, and health care, better equipped to adapt to an expanding economy. Experience along the border with the *maquiladora* system illustrates the affect of these forces. Employee turnover rates of over 100% annually and decreased productivity are directly linked to inadequate transportation, housing, and water. Severe shortages of necessary community services can result in outbreaks of communicable disease further impeding the desired outcomes of free trade, if removing trade barriers are considered only in strict economic terms. Arguably, thorough economic analyses requires proper allocation of the ecologic costs of development which are currently borne diffusely by society in various ways, but which more properly should be costed to production or passed on to the consumer.

The elimination of economic trade barriers alters the rate and flow of goods and people across borders as well as the pattern of flow within nations. This will create pressure on existing systems for delivery of health care and will accelerate the need for development and deployment of emergency medical systems (EMS) in Mexico analogous to EMS in the U.S. Modifications of the rules for crossing borders for emergency transport of the sick and injured will be needed to eliminate the delays that presently are increasing morbidity and mortality. Although not quantified fully, preliminary studies along the U.S.-Mexico border have identified a significant number of U.S. citizens crossing the border to obtain primary health care in Mexico as well as Mexican citizens crossing to obtain tertiary health care in the U.S.[2,3,4] Significant numbers of retired U.S. citizens now reside in Mexico, and it is becoming a more popular vacation destination. Free trade should also extend to service industries and health insurance coverage should be encouraged to be extended to services provided in Mexico, Canada, or the United States. Current reimbursement practices of U.S. companies tend to exclude payment for health care services rendered by Mexican physicians which, coupled with lengthy delays in transporting patients across the border through only official international

airports, result in increased costs to insurers and to rate payers because of increased severity of illness. These barriers need to be eliminated and reimbursement policies and practices need to be examined. These issues are so significant that local communities along both sides of the border are addressing the problem in a cooperative manner at this time.[6] Some have called for the designation of a health care zone along the border recognizing specially designated and licensed U.S. and Mexican physicians to practice freely anywhere within the zone.[6]

Preventive medicine programs focusing on nutrition, control of communicable disease including tuberculosis, hepatitis, and AIDS, drug and alcohol programs, accident prevention, and early detection and treatment of serious illness will prevent the undermining of the labor force by unmanaged health problems. These programs are best delivered with community ownership of health projects in cooperation with local industry and government.

Within industry, on both sides of the border, there is a current need for expanded worker training and education which will become greater with the introduction of new manufacturing capabilities and relocation of industry. Occupational disease monitoring and surveillance programs, with standardized definitions and reporting is urgently needed within border industries on both sides for the benefit of public health and the worker. There is a need for tri-/bi-national collection and sharing of rates of occupational disease and injury to allow preventive actions to be implemented to protect health. As economic trade barriers are reduced we must be cautious not to encourage development that results in a net export or import of occupational or community disease or injury. Understanding that agents affecting health are not confined to geo-political boundaries when released into air, water, soil, or carried by people, food, animals, or vehicles, calls for a mature acceptance of responsibility and accountability for actions on one side of the border that affect populations on another side. A call for the "harmonization" of occupational health and environmental standards is echoing along the border as well as the creation of a bi-national commission with authority for enforcement.[7, 8]

Inevitable Natural and Societal Forces

There are inevitable natural and societal forces that compel action and shape the implementation of free trade over time. Five come to mind that will be considered briefly. First, the economics of environment and health are such that inevitably the costs for impairment will be borne. As mentioned before, it is preferable to truly bear these as actual costs of manufacturing and sales. Failing to do so results in the creation of a cumulative environmental debt in the form of depleted, damaged, mismanaged, or poorly utilized resources. This debt will be passed on to future generations who will pay with remediation costs and increased morbidity and mortality. If environmental or health impairment is reversible then remediation efforts, though expensive, may be restorative and once again permit sustainable economic development to occur. If impairment is permanent, the ecosystem is forever altered, preventing any form of sustainable development and, implicating future collapse.

Rate of change determines in large part the reversibility of damage to ecosystems. Ecosystems have the capacity to adapt to changes in temperature, rainfall, food supply, sunlight, etc., but these adaptive mechanisms generally operate on evolutionary time scales spanning multiple generations. The rate of change facing ecosystems as a result of human activities is taking place faster than adaptive or repair responses can cope, resulting in a threatened or actual extinction of species and a global perturbation of the balance of natural systems. We have an obligatory responsibility to implement international policies, protocols, and procedures necessary to avoid irreversible

degradation of environmental resources while at the same time improving the standard of living for the developing regions. We have an opportunity to initiate these policies in the North American continent through tri- or bi-national cooperative efforts.

Implicit to this implementation of sustainable development is the need to reduce inefficiency in the flow of information, equipment, and knowledgeable and skilled personnel across borders, to aide in the empowering transformation of the North American continent. Understanding the effects that free trade in North America will have on the health of people, communities, and workers requires that we have the ability to quantify uniformly defined outcomes and share information in a timely manner.

Second, national differences in standards and enforcement capabilities, will likely lead to development of strategies for cooperative and coordinated multi-jurisdictional approaches to compliance with environmental and occupational health laws and regulations. Differences in standards may be viewed either as barriers to trade or as unfair subsidies. Relaxation of standards would be a shortsighted solution to resolve the inequality of technological or economic abilities, so innovative approaches should be considered. Alan Neff proposes the legislation of an act, patterned after the Foreign Corrupt Practices Act, he calls the Foreign Environmental Practices Act, which would extend the applicability of U.S. standards to foreign operations of U.S. companies, enforceable in the U.S. through the regulatory or tort system.[9]

Such an act may be useful or needed, but in addition, economic assistance may be required to enable upgrading of Mexican industry to reduce releases of hazardous waste and to ensure safer working environments. Such assistance would be an investment for our common futures by preventing the accelerated degradation of the environment that might otherwise occur.

Third, responsibility and accountability for international effects of government and business operations will be demanded with increasing frequency over time. In the last decade we have witnessed the demand for such accountability by people and nations throughout the world for disasters experienced in Seveso, Bhopal, Chernobyl, the Amazon, Alaska, and most recently the future implications of oil spills and fires in Kuwait.

Fourth, this demand for accountability will affect the availability of insurance and the premiums charged for the transfer of economic risk. The degree to which these economic pressures are felt depend on the degree to which preventive measures are employed from the outset for economic development and the implementation of free trade activities. Legal judgements, fines, and increased insurance premiums are indirect ways that the costs of environmental and public health impairment are borne by societies. The costs will be borne, but it is the price we must ultimately pay that is negotiable at this time in terms of the policies and acceptance of responsibility we assume on a continental basis. In reality, these issues are truly global, but the north american continent is in the best position to lead by example and set the tone for a global response.

The fifth inevitable force considered here is the demand for the transfer of experience in preventive activities, process controls, monitoring and surveillance of the worker and environment, training programs, regulation development and compliance assistance, hazardous materials transportation, treatment, and disposal technology, etc., from the more developed to the lesser developed regions. These demands will induce service industries to export skills and knowledge across borders, but will also exert pressure on

governments for international assistance programs and cooperative efforts to evaluate and mitigate environmental and public health problems.

Pressure

The forces just described shall exert a combined pressure on us all to alter our consumption behavior, our expectations, and our view of ourselves and the world. These forces are pressing us as a result of an inexorable global economic and environmental linkage toward future intercontinental environmental and public health policies and international laws. These future policies and laws should develop with the flexibility to be responsive to specific local and regional variables. The impulse that will overcome all the apparent political, economic, and cultural obstacles is derived from a desire for survival. It is not an alarmist reaction but the collective recognition globally of impending doom if we fail to act responsibly and promptly, that will compel us to implement the requisite actions.

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FSN FINANCIAL SERVICES NETWORK INC.

April 17, 1991

Mr. Robert J. Leonard, Chief Counsel
Committee on Ways and Means
U.S. House of Representatives, Rm. 1102
Longworth House Office Building
Washington, D.C. 20515

RE: EXTENSION OF "FAST-TRACK" AUTHORITY AND THE IMPACT OF SUCH EXTENSION ON THE NORTH AMERICAN FREE TRADE AGREEMENT.

We would like to thank the Committee on "Ways and Means, U.S. House of Representatives, for granting us this opportunity to express our views and perspective on one of the most fundamental pieces of legislation to be presented to Congress in several years.

The purpose of our letter is to respectfully request that each and every member of the Committee on Ways and Means, U.S. House of Representatives, support the extension of "fast-track" authority. This authority would allow the Executive Branch to negotiate NAFTA with a provision for final Congressional approval, but without the opportunity for crippling amendments by special interests. We believe that the U.S. trade representatives need the opportunity to negotiate the best overall agreement possible, without the micro-managing by special interests that could occur if "fast-track" authority is not extended.

We believe that through "fast-track" legislation and the eventual passage of NAFTA the three participating countries will experience both political and economic benefits. We realize that challenges have been presented concerning labor, the environment, and immigration yet believe that they can be addressed after passage of NAFTA more efficiently.

Sincerely,

FINANCIAL SERVICES NETWORK, INC.

JEFFREY D. HILL, CFP

600 Grant St., Suite 506, Denver, Colorado 80203 (303) 860-9722

BY PERMISSION OF THE CHAIRMAN:

THE FRASER INSTITUTE

HEAD OFFICE: 626 Bute Street, Vancouver, British Columbia V6E 3M1 Canada ☐ ☐ ☐ (604) 688-0221
Fax: (604) 688-8539

April 10, 1991

Mr. Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives,
Room 1102
Longworth House Office Building
Washington, D.C. 20515
U.S.A.

Dear Mr. Leonard:

I am writing to convey to you 81 copies of our just released study entitled "Continental Accord" for distribution to the members of the Committee on Ways and Means and the press. This study contains important new information about the prospective impact of a trilateral trade agreement.

The study finds that trilateral free trade offers important benefits to all parties--Mexico, Canada and the United States, according to this just-released study. The study, by researchers at Stanford University, the Centre for International Studies in the University of Toronto, Simon Fraser University, the Hudson Institute and private sector consultants in Mexico City has found that the benefits are both economic and non-economic in nature. They include higher real income levels, especially for Mexico, and the creation of an economic and policy environment in North America that is more conducive to resolving broader issues such as illegal immigration and cross-border pollution.

According to Dr. Rogelio Ramirez de la O, one of Mexico's most distinguished economists, the direct economic effects on Mexico will be most dramatic. Direct effects, via an increase in trade, and indirect effects via an increase in investment, should lift the rate of growth in real gross domestic product from 3.5 per cent, which is now considered feasible, to an average rate for the first five years of the Free Trade Agreement implementation of 4.7 per cent.

Rapid Mexican growth should stimulate increased exports from Canada and the United States. It is estimated that a trilateral free trade agreement would boost Mexican imports by approximately $42 billion during the first five years of the agreement, representing additional purchases from North America of $24 to $35 billion by the fifth year of FTA implementation. Indeed, it is projected that Mexico will import more than it exports over the first five years of an agreement. The Canadian and U.S. economies will also benefit from lower prices for goods exported by Mexico, as well as by improved efficiency sstimulated by increased competition.

The existing Canada-U.S. free trade agreement offers the basis for a penumbra agreement to which Mexico can accede. A careful examination of the options suggests that a trilateral agreement is the only model for evaluating hemispheric free trade that meets the economic needs of the smaller economies. It should be seen as a first step towards a hemispheric free trade arrangement .

The study also notes that the experience of the European Community shows the feasibility of widening a free trade area over time, as well as moving beyond a free trade agreement to ever closer economic integration to the mutual advantage of everybody involved. The European Community experience also shows that while low-income countries such as Portugal and Spain experienced the most dramatic economic gains from economic integration, higher income countries also gained.

The overall conclusion of this study, which has been conducted by some of North America's most prestigious analysts, is that a trilateral traade aagreement will be to the mutual advantage of all three countries. If you require further information from this on-going program of research, we would be pleased to provide it.

Sincerely,

Michael A. Walker
Executive Director

Enclosures

Via FEDERAL EXPRESS

[THE STUDY "CONTINENTAL ACCORD" IS BEING RETAINED IN THE COMMITTEE FILES.]

THE FRASER INSTITUTE

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RELEASE DATE: April 10, 1991

*Executive Director: Dr. Michael Walker
*Tri-lateral Aspects: Dr. Steven Globerman
The Fraser Institute, Vancouver, (604) 688-0221
Mexican Impact: Dr. Rogelio Ramirez de la O
Mexico City, (525) 525-5711
European Lessons: Dr. Alan Reynolds
The Hudson Institute, Indianapolis, (317) 545-1000
U.S. Impact: Dr. Clark Reynolds
The Americas Program, Stanford University, (415) 857-0439
Canadian Impact: Dr. Leonard Waverman
INSEAD, Paris, (331) 6072-4274

STUDY ASSESSES NORTH AMERICA FREE TRADE PACT

Denver, Colorado >>>> Trilateral free trade offers important benefits to all parties-Mexico, Canada and the United States, according to a study released today. The study, by researchers at Stanford University, the Centre for International Studies in the University of Toronto, Simon Fraser University, the Hudson Institute and private sector consultants in Mexico City has found that the benefits are both economic and non-economic in nature. They include higher real income levels, especially for Mexico, and the creation of an economic and policy environment in North America that is more conducive to resolving broader issues such as illegal immigration and cross-border pollution.

The study, which is part of a multi-year program of research undertaken by the Fraser Institute of Canada, and supported by the Lilly Endowment Inc. of Indianapolis, was released today in Denver at a conference jointly sponsored by the Center for the New West, the Miguel Aleman Foundation and the Fraser Institute.

According to Dr. Rogelio Ramirez de la O, one of Mexico's most distinguished economists, the direct economic effects on Mexico will be most dramatic. Direct effects, via an increase in trade, and indirect effects via an increase in investment, should lift the rate of growth in real gross domestic product from 3.5 per cent, which is now considered feasible, to an average rate for the first five years of the Free Trade Agreement implementation of 4.7 per cent.

Rapid Mexican growth should stimulate increased exports from Canada and the United States. It is estimated that a trilateral free trade agreement would boost Mexican imports by approximately $42 billion during the first five years of the agreement, representing additional purchases from North America of $24 to $35 billion by the fifth year of FTA implementation. Indeed, it is projected that Mexico will import more than it exports over the first five years of an agreement. The Canadian and U.S. economies will also benefit from lower prices for goods exported by Mexico, as well as by improved efficiency stimulated by increased competition.

The existing Canada-U.S. free trade agreement offers the basis for a penumbra agreement to which Mexico can accede. A trilateral agreement is the only model for evaluating hemispheric free trade that meets the full economic needs of the smaller economies. It should be seen as a first step towards a hemispheric free trade arrangement. The experience of the European Community suggests the feasibility of widening a free trade area over time, as well as moving beyond a free trade agreement to ever closer economic integration. The European Community experience also shows that while low-income countries such as Portugal and Spain experienced the most dramatic economic gains from economic integration, higher income countries also gained.

- 30 -

*Both Dr. Waiker and Dr. Globerman will be available for interviews at "The Contintental Ascendant: North America in the 1990's Conference" at the Sheraton Denver Tech Center. Media copies of the overview study "Continental Accord: North American Economic Integration" will be available at the conference or through the Fraser Institute, 626 Bute Street, 2nd Floor, Vancouver, B.C., Canada V6E 3M1. Phone: (604) 688-0221, FAX: (604) 688-8539.

THE FRASER INSTITUTE

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The Fraser Institute is pleased to co-host

A Continent Ascendant: North America In the 1990s

with The Center for the New West

and The Miguel Aleman Foundation

About The Fraser Institute

The Fraser Institute is an independent Canadian economic and social research and educational organization has as its objective the redirection of public attention to the role of competitive markets. The Institute is a national, federally chartered, non-profit organization financed by the sale of publications and the contributions of members. Since 1974, the Institute has gained international recognition for its publishing and conference programs.

Continental Accord

The Institute is pleased to provide each conference attendee with a complimentary copy of this just-released publication — the first of a series of publications on closer economic relations in North America. Additional copies are available at C$19.95 plus handling from the Vancouver offices of The Fraser Institute. If you wish to be informed of future publications in this series, please send your mailing information to the Fraser Institute.

Toward Closer Economic Relations in North America

The Institute is currently undertaking a thorough investigation of the political economy of a North American common market funded by the Lilly Endowment Inc. of Indianapolis. In pursuit of this project, the Fraser Institute has been pleased to secure the co-operation and collaboration of many respected research organizations in North America.

The Centre for International Studies at the University of Toronto is undertaking a wide ranging program of research in assessing current trade relations in North America and is examining the economic impact on specific sectors of the North American economy of liberalized trade relations. In particular, focus in the early years of the project is on the trilateral free trade arrangement which is being negotiated between Canada, the United States and Mexico. Under the direction of Professor Leonard Waverman, this research program involves, in addition to University of Toronto economists, researchers at Simon Fraser University, the University of Michigan, the University of Colorado, the University of Western Ontario and Waterloo University.

The Hudson Institute, both in Canada and the United States, is examining the lessons that can be learned about North American integration from the European experience and the evolution of the European Economic Community toward the provisions of the 1992 agreement. The Hudson Institute's work under the direction of their Director of Economic Research, Alan Reynolds, will also provide an analysis of the political dynamics involved in the move toward closer economic relations in North America.

The Americas Program at Stanford University and its director Professor Clark Reynolds have a long-standing involvement in the discussion about integrating Latin America into the North American trading system. In particular, they have made many contributions to the debate about the desirability and necessity of involving Mexico in a trade pact with the United States and Canada. The Americas Program has undertaken to examine the economic implications for key sensitive areas of the Mexican and American economies and, in particular, the agricultural sector and labour markets.

One concern often expressed about the integration of Mexico into the North American trading system is that Canada and the United States will shift environmentally damaging production into Mexico because it has a lower standard of environmental amenity and a higher tolerance for industrial effluent. However, the Political Economy Research Center in Bozeman, Montana, internationally renowned for its work on the economics of environmental issues, has taken on the task of constructing a vision of how economic integration may actually foster environmental preservation. Under the direction of Professor Terry Anderson, they are also, with the collaboration of Mexican, Canadian and American investigators, assessing the economics of the market for water in North America. Undoubtedly this will prove in the long term to be one of the continent's most important and scarce resources and it is essential to have a clear understanding of the economic forces that may impel developments in this area.

While undoubtedly the environment and water will be contentious subjects for debate during this and subsequent trade negotiations, underlying all of the economics will be cultural forces of one kind or another. We have been very fortunate to secure the collaboration of one of North America's leading sociologists and undoubtedly the world's leading expert on North American cultural interactions, Professor Seymour Martin Lipset, to conduct a program of research on these topics. He will examine how the cultural diversity of the region may affect the possibility of achieving economic integration. Lipset's recent work *Continental Divide* which comparatively examines Canadian and American culture provides a point of departure for what promises to be a very important examination of the role that culture may play in the ultimate economic configuration of North America

The Institute and the other collaborating organizations are pleased to be joined in this project by economists from the prestigious El Colegio de Mexico. This group, which also advises the Mexican trade negotiations, is working closely with our Canadian and American researchers to develop estimates of the impact trade will have on the structure of the three economies.

Glynsong Holding Company

April 16, 1991

The Honorable Dan Rostenkowski
Chairman House Ways and Means Committee
1102 Longworth House Office Building
Washington, D.C. 20515-6348

Dear Mr. Chairman:

I am writing on behalf of Glynsong Holding Company and its subsidiary, Bird Oil Corporation, to encourage you to advocate and support pending congressional legislation designed to extend "fast-track" authority to the Executive Branch. We believe "fast-track" authority is essential to enactment of a North American Free Trade Agreement (NAFTA).

Having spent the last several years trying to make sense of the United States' national energy strategy, and supporting efforts designed to affect the way we achieve energy strategy with respect to both environmental and competitive priorities, I am convinced that failure to approve "fast-track" will cripple our trade delegation's ability to negotiate the NAFTA in good faith. Our negotiators will only be able to make the "critical" trades with our neighbors to the North and South, if those neighbors can be assured that the trades made will not be overridden, at a later date, by American special interest groups seeking to amend the NAFTA (outside of the context of the negotiation process) in order to meet their special interest needs. Failure to make the "critical" trades will lead to no, or at best a delayed and lackluster, North American Free Trade Agreement. I am convinced that our inability to find a mechanism which will allow us to reach consensus on the "critical" trades is at the heart of our incapacity to resolve our energy policy problems. There is no need to foster this crippling malady when it comes to free trade policy.

Any time that we make bold moves in a new direction, there will be "winners and losers." If a strong NAFTA is negotiated, I submit that, over time, those claiming that they will be the "losers" will become "winners" through re-deploying their talents and resources in a more rapidly expanding North American economy. The essential question is whether there are more long-term economic benefits and jobs to be won by enacting a strong North American Free Trade Agreement, than will be lost by the failure to do so, or by the enactment of a weak agreement. We believe the answer is that more long-term benefit will accrue to the United States through the rapid enactment of a strong NAFTA.

Pollution will only be abated in Mexico, and other parts of the Third World, through better trading relationships with the industrialized countries. If economies do not grow, there will be no capital to enhance the quality of life. No enhancement of the quality of life means subsistence living and terrible pollution. Reference the Iron Curtain countries. Anything that encourages the export of American efficiency and cleaner alternates technology and services to Third World countries is only going to improve the environmental performance of their energy sectors.

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President Salinas has staked his political career, and is organizing one of the most rapid transformations of a state-run bureaucratic economy, around the concept of a North American Free Trade Agreement. The United States' failure to aid President Salinas to fulfill his vision is not in the interest of regional stability, nor the economic vitality of North America. There are 90 million people in Mexico who want a better standard of living, have demonstrated an improving capacity to do high quality work, and have an established interest in the purchase of products "Made in the U.S.A." If we fail to support President Salinas by stabilizing and expanding our trading relationships with Mexico, through enactment of a strong NAFTA, inter-country tensions will increase and a golden economic opportunity will be lost.

Glynsong is dedicated to marketing energy efficiency technology and cleaner energy alternates in the United States and abroad. We are watching developments in the Pacific Rim and Europe where major, new trading alliances are being formed respectively by the Japanese, Koreans, Taiwanese and the members of the emerging European Community and Eastern European countries. It is difficult for us to fathom why, largely based on what we believe to be short-sighted concerns by organized labor, our elected representatives would ignore the formation of a trading block in North America which has the potential to exceed that of emerging and competing alliances.

If U. S. industrial concerns are going to remain competitive, they are going to have to find access to additional medium and low-skilled labor sources, which are in increasingly short supply in this country. American industrialists can alleviate this problem in our backyard (or, to an extent, watch the backyard sneak across a two thousand mile common border into the house and front yard) or we can do it in Eastern Europe and Asia. We submit that our best interests will be served by directing our efforts to improving conditions in our back yard.

Those of us at Glynsong and Bird Oil hope you will do everything in your power to enhance the potential for the successful implementation of a North American Free Trade Agreement by encouraging and supporting the extension of the Executive Branch's "fast-track" authority.

Very truly yours,

Glynsong Holding Company

Robert T. Birdsong, Jr.
Chief Executive Officer

cc: Mr. Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515
(six copies)

Charles R. Harris
1532 West Lawrence Road
Phoenix, AZ 85015

April 19, 1991

Robert J. Leonard, Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Re: U.S.-Mexico Free Trade Agreement

Dear Chief Counsel Leonard:

Enclosed is my testimony as an expert witness on the Mexican judicial system for inclusion in the printed record of the House Ways and Means Committee hearing on a possible free trade agreement with the United Mexican States, as requested by U.S. Congressman Jon Kyl.

The testimony recounts my nine-year nightmare with the "Mexican judicial system" and recommends that Congress not approve a free trade agreement unless and until it can assure that U.S. citizens will be protected from the existing condition in Mexico which will force them to support corruption of justice, or lose their investments.

It consists of five legal-size, single-spaced pages with 15 enclosures marked as "A" through "O".

The important parts of the enclosures are quoted within the testimony itself so it may not be necessary to print the enclosures. I would appreciate, however, their being kept on file and made available to the Congress and the public.

If there are any questions, please contact me through the address above or the phone number below.

Thank you for hearing me.

Sincerely,

Charles R. Harris
Phone: 602 249-3267

Encl: Five pages of testimony with 15 enclosures.

cc: U.S. Congressman Jon Kyl.
Continental Communication Consortium.

[ADDITIONAL ENCLOSURES ARE BEING RETAINED IN THE COMMITTEE FILES.]

WRITTEN TESTIMONY WITH PETITION TO THE
HOUSE WAYS AND MEANS COMMITTEE
OF THE
CONGRESS OF THE UNITED STATES OF AMERICA
FROM U.S. CITIZEN
CHARLES RICHARD HARRIS
CONCERNING
DANGER TO U.S. CITIZENS
FROM A FREE TRADE AGREEMENT
WITH THE UNITED MEXICAN STATES

I, Charles R. Harris, salute the gentlemen of the Congress of the United States and, as a sovereign citizen of our nation, and an expert on the Mexican judicial system, offer the following testimony to beseech the Congress NOT to authorize any free trade agreement with the United Mexican States unless and until it first assures that:

1. U.S. citizens will be protected from the existing condition in Mexico which will force them to support corruption of justice, or lose their investments.

2. the President of Mexico has demonstrated definite evidence of fulfilling his own promise to investigate and eliminate corruption of justice in his country, specifically by satisfactorily resolving all existing complaints of injustice from U.S. citizens.

To prove the critical need for the above protection, and to verify the existence of the corruption, by my own free will I hereby place myself under oath to tell the truth under penalty of perjury and do now testify as follows:

My nine-year nightmare began shortly after I went to Morelia, Michoacan, Mexico to learn Spanish at a school recommended by American universities, prior to investing.

I was persuaded to loan the equivalent of 105,000 dollars to the Mexican school, whose director was a U.S. citizen, and whose president was the wife of the Chief Justice of the State Supreme Court. I trusted them because the chief justice himself assured me everything was correct and legal, and I believed a chief justice and American universities would not support swindlers.

I was wrong. I spent the next nine years trying to get my money back through the Mexican "judicial" system -- in spite of threats, blackmail and an attack by unknown men who told me to get out of the country. Please see the following enclosures, which along with all other enclosures are incorporated into this testimony by reference:

A. Verified list of court cases in Mexico, from Associated Lawyers (Abogados Asociados), consisting of fifteen civil lawsuits, penal investigations, and appeals with brief summaries.

B. Summary of Events, Lawsuits and Complaints of Mexican Injustice Against U.S. Citizen Charles Richard Harris.

Three Mexican lawyers betrayed me, and every -- repeat EVERY -- lawyer I consulted in Mexico informed me in his own way that I could not hope to win unless I bribed the officials and the judges, that is, unless I "interested them in my case." Please see enclosure:

C. Political cartoon regarding Mexican justice published in the leading newspaper, **La Voz de Michoacan**, depicting the Goddess of Justice elegantly dressed with pearls

(more)

and her sword and balance scales tucked beneath her arms while she peeks from under her blindfold to count a handful of money, remarking, "Blind? No, pug nose." In the background hangs a traditional painting of the goddess dressed in rags with a sign taped beneath, reading: "Discontinued".

I was trapped in a corner with only two options: bribe the judges -- support the corruption -- or lose my life savings.

To lose everything I'd invested and saved for twenty years in the military was unthinkable. I let myself be persuaded to follow the accepted custom, even though I knew the other party could always defeat me by paying the judge more.

But fellow victims in Mexico gradually persuaded me I should not have abandoned my principles: I was supporting the tyranny of injustice against the Mexican people. See enclosure:

D. Summary of experiences exchanged with the Mexican people, which reads: "As a fellow victim, Mexicans have been trusting and confiding in me for the last nine years. In all 31 states of Mexico, in restaurants, homes and the halls of 'justice' we've been swapping experiences.

"I told them how the Mexican judicial system has treated me, and they told me how it has treated them.

"In the process they explained why they are not impressed by our preaching about freedom, democracy, prosperity and peace. 'Without justice,' they summarized, 'none of these things are possible. Without justice, nothing is possible ... except corruption.'

"To prove it they told me how false charges are filed against them and judges are paid to put them in jail -- stealing their freedom. How false liens are put on their farms or homes and judges are paid to take their property. How they vote in a democratic way and their votes are lost or stolen. How peace is impossible because victims must fight to protect themselves. How prosperity is impossible, except for the rich and powerful.

"They were discouraged and complained that they are doomed to lives of the rich getting richer and the poor getting poorer, because 'justice' exists only for the rich.

"They were not enthused by the proposed free trade agreement. 'It will be,' they said, 'the same as our oil bonanza. Only the rich will get rich again.'

"They were worried that justice will be pushed even further from their grasp, if America and its investors support the corruption."

From then on I wanted no part of the corruption. It was wrong to pay a judge for justice: it denies justice to all who cannot pay.

It was even worse to do nothing: "The only thing needed for justice to die is that just men do nothing."

I searched for a third option. My Mexican friends begged me not to fight it. They warned me of the methods usually used and readily available to discourage me and, if necessary, make me have an "accident" or disappear. One even put it in writing. See enclosure:

E. Personal letter from a Mexican friend, which warns: "Chuck, ... You have to be doubly careful now. Benito

(more)

> Andrade [the third lawyer to betray me] is the kind of guy who doesn't stop for anything and is a firm believer in the saying: 'the end justifies the means.' On the other hand, I don't think either Susana Palafox's husband [the ex-Chief Justice of the Supreme Court of the State of Michoacan] or Padelford are going to be totally passive about the measures you've been taking. I think it'd be a good idea if you could be incognito most of the time.
>
> "You're playing with fire and you should treat it as such. I don't know, but I think your life is at stake and I frankly don't like it one bit. It would really upset me if anything happened to you. You're my friend and you worry me, you know? So be very very careful. And if anything, think how much it is really worth at the end. It's **your life** that's in danger ...."

Determined to fight, I needed to protect myself from further attacks or kidnappings. I decided to put myself in the spotlight where it would be harder to make me disappear. Fellow writers and friends in the press came to my aid. Please see enclosure:

F. Article published in the national newspaper **Ovaciones** (with translation) headlined: "American Investor Defrauded By 'Tarascos' [citizens of the State of Michoacan]," in which the opening paragraphs summarize: "The Governor of Michoacan has in his hands the destiny of all the savings -- almost 300 million pesos -- of an American who came in good faith to invest in Mexico but was deceived for over six years [now over nine years].

> "The story of the case is so plagued with dirty legal tricks, lawyers, coyotes, and officials in collusion that the supposed victim, Charles R. Harris has even written a book [scheduled for publication during the free trade negotiations] where he narrates his precarious and unfruitful journey through the complex Mexican legal system."
>
> The photo caption reads: "Charles Harris examines the promissory notes and four checks without funds which he cannot present to a penal judge because his complaint against a language school for fraud was closed. On his lap he has a book of document copies that implicate the ex Chief Justice of the Supreme Court of Michoacan and his wife, and which also includes superior Court Sentences [King County, Washington] against the vice president of the school, with an order for his arrest in the U.S."

The publicity got favorable action until Carlos Salinas de Gortari was elected President of Mexico and events turned unfavorable again. This time, instead of paying judges I paid newspapers. I bought ads and published the names of officials who were not doing their jobs for lack of "interest". I even appealed to Presidents Bush and Salinas. Please see enclosures:

G. Paid announcement requesting justice from Governor of Michoacan (with translation).

H. Paid announcement requesting investigations of ethics and injustice from Presidents Bush and Salinas (translated).

I. Paid announcement (with translation) declaring I will pay no official for justice because it denies justice to all who cannot pay.

The Presidency of Mexico responded to my public request (enclosure "H") by requesting that the Secretary of State investigate the injustice and report. See enclosure:

J. Letter from the Presidency of Mexico, "Oficio 15363".

(more)

Two full years later, no investigation has been made and all my registered requests for a copy of the report or any response from the Presidency, the Department of State, or the Mexican Ambassador remain unanswered and unacknowledged. I believe I have been abandoned. Not even the American Embassy in Mexico City has indicated any response whatsoever.

For nine years, through more than a dozen civil court cases and fraud investigations, I received decisions and sentences which are unbelievable and laughable, except for their tragic consequences. Please see enclosure:

K. Letter published in **The News de Mexico**, which reads in part: "The decisions against me make a mockery of Mexican justice. In summary they say that in Mexico It Is Not A Crime To:

- give fraudulent guaranties.
- pay by checks without funds.
- invent fictitious documents to cancel legal documents.
- pay a small part of a debt as payment in full.
- cancel guaranties without paying the debt.
- disband an organization without notifying the creditors.
- threaten creditors' friends with fictitious documents.
- libel, defame, and falsely accuse creditors.
- impersonate an Honorary U.S. Consul.
- dictate jurisdiction in another country where nothing happened nor exists.

"Because I was constantly betrayed, I finally charged my third lawyer with Abuse Of Confidence. The Attorney General of Michoacan made a further mockery of Mexican justice by deciding that it is not a crime for a lawyer to:

- disobey the order of a judge.
- collect money secretly in the name of his client and never notify his client.
- resolve a case in favor of his adversary, against his client.

"I now wonder if it's even possible to commit Abuse Of Confidence in Mexico. As long as lawyers like these -- who are untouchable -- can prosper, I cannot see how normal Mexicans or investors can prosper."

The Supreme Court of Michoacan -- after reviewing the testimony of all witnesses verifying that everything had happened in Mexico, and knowing the U.S. had already declined jurisdiction -- declared jurisdiction to be in the United States. Now jurisdiction and justice exist ... nowhere.

I believe I am being punished for challenging the Mexican system of bribing judges for justice. I believe that any future American investors -- attracted by a free trade agreement or mislead by articles like "Mexico's New Revolution" -- will also be punished, if they do not support the corruption. See enclosure:

L. Letter to **The Reader's Digest** protesting the omissions in its article: "Mexico's New Revolution", which states in part: "Many years ago **The Reader's Digest** published a filler asking the reader to guess the name of a famous person after listing several of his accomplishments. Few readers were able to identify him as Adolf Hitler because the list contained only favorable facts. It concluded by revealing it was only an example of how misleading facts can be, when some are omitted.

(more)

> "'Mexico's New Revolution' is another example. By telling how the president jailed corrupt union boss, Joaquin (La Quina) Hernandez Galicia, the author created the impression that President Salinas de Gortari is a champion of justice. He did not tell readers that this a traditional trick of Mexican presidents. They start their terms making a grandstand show of justice by jailing a scapegoat, then let corruption go on as usual — just as Jorge Diaz Serrano, the corrupt head of the government oil monopoly was jailed by previous President Miguel De La Madrid. (Most Mexicans are wise to this scheme; please do not appear naive by reprinting the article in [your Spanish edition]."

My nightmare is only one of many. Businessman Richard Flynn spent over three years in a Mexican jail for voluntarily going to Mexico to correct a problem between his company and a Mexican company. He suffered numerous heart attacks in that jail and threatened to sue the U.S. State Department when it did nothing to help him. To save his life he succumbed to supporting the corruption, and the Mexican Supreme Court released him. Mr. Flynn personally advised me: "If you don't pay the money, you're screwed". See enclosure:

M. Newspaper clipping about Richard Flynn.

Dr. V.H. Vedda, President of Petroco Incorporated, also advised me to forget about help from the U.S. Embassy and forget about doing business in Mexico: "it's too corrupt". See enclosure:

N. Letter from Dr. Vedda published in **The News de Mexico**, which reads in part: "Needless to say that I have given instructions to stop all activities in Mexico and furthermore I have instructed my 11 offices worldwide to forget about Mexico. I further intend to contact my many friends and contacts worldwide to inform them about what goes on in Mexico. I wish I could have access to President Salinas to point out that this is not the way to attract business and investments to Mexico."

To lure Americans into an immoral trap with an inadequate trade agreement would in itself be immoral and unethical.

Considering all the above, I beseech the Congress once again to NOT authorize a free trade agreement with Mexico until it can assure that U.S. investors will not be trapped into only two options: support corruption or lose your investment. **No third option now exists.** (Even a letter from the Presidency did me no good. Even petitions from the Alliance For The Defense Of Human Rights, of the United Nations, were ignored.)

To this end, as a precondition to a free trade agreement, I specifically beseech the Congress to require a show of good faith from the President of Mexico: proof he is keeping his promise to correct the corruption by satisfactorily resolving all existing complaints of injustice from U.S. citizens.

I certify all the above, including all referenced enclosures, to be true to the best of my knowledge, and I stand ready to cooperate fully with the Congress to protect my fellow Americans.

Notary 2-22-91

My Commission Expires May 1, 1994

Charles Richard Harris

LAST-MINUTE UPDATE: The Mexican Embassy attempted to deceive Senator John McCain and myself with an "answer" to my request for an investigation of injustice, and it is totally unacceptable. It merely regurgitated the summary of my legal cases in my enclosure 'A', implying I am to blame for everything and uninterested in getting my life savings back. It addressed none of my complaints of injustice in enclosure 'B'. Pending a direct answer to Senator McCain, I consider this deception further proof President Salinas is not correcting corruption. See enclosure "O".

Hispanic Chamber of Commerce, Inc.
789 Sherman Street, Suite 530 Denver, CO 80203
(303) 894-0487

April 17, 1991

Mr. Robert J. Leonard, Chief Counsel
Committee on Ways and Means
U.S. House of Representatives, Room 1102
Longworth House Office Building
Washington, D.C. 20515

RE: **EXTENSION OF "FAST-TRACK" AUTHORITY AND THE IMPACT OF SUCH EXTENSION ON THE NORTH AMERICAN FREE TRADE AGREEMENT.**

We would like to thank the Committee on "Ways and Means", U.S. House of Representatives, for granting us this opportunity to express our views and perspective on one of the most fundamental pieces of legislation to be presented to Congress in several years.

The purpose of our letter is to respectfully request that each and every member of the Committee on Ways and Means, U.S. House of Representatives, support the extension of "fast-track" authority. This authority would allow the Executive Branch to negotiate NAFTA with a provision for final Congressional approval, but without the opportunity for crippling amendments by special interests. We believe that the U.S. trade representatives need the opportunity to negotiate the best overall agreement possible, without the micro-managing by special interests that could occur if "fast-track" authority is not extended.

We believe that through "fast-track" legislation and the eventual passage of NAFTA the three participating countries will experience both political and economic benefits. We realize that challenges have been presented concerning labor, the environment, and immigration yet believe that they can be addressed after passage of NAFTA more efficiently.

We are an organization of individuals and small business owners, and believe that our organization and it's membership will greatly benefit from "fast-track" legislation. We believe that NAFTA is vital to our city, state, and nation in order that we may compete worldwide.

Sincerely,

Ronald Montoya
President

Jeffrey D. Hill
International Trade Committee

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STATEMENT BY

JAMES E. BYE & ERIC D. MILLER
HOLME ROBERTS & OWEN
DENVER, COLORADO

BEFORE THE
COMMITTEE ON WAYS & MEANS
U.S. HOUSE OF REPRESENTATIVES

EXTENSION OF "FAST-TRACK" AUTHORITY
AND THE IMPACT OF SUCH EXTENSION ON
THE NORTH AMERICAN FREE TRADE AGREEMENT

April 10, 1991

We would like to thank the Committee on Ways and Means, U.S. House of Representatives, for granting us this opportunity to express our views and perspective on one of the most fundamental pieces of legislation to be presented to Congress in several years. We fully understand that the hearing today pertains to whether Congress should grant an extension of "fast-track" authority to the Executive Branch. However, the grant of that authority in all likelihood will determine whether the North American Free Trade Agreement ("NAFTA") will be enacted.

The purpose of our statement is to respectfully request that each and every member of the Committee on Ways and Means, U.S. House of Representatives, support the extension of "fast-track" authority. This authority would allow the Executive Branch to negotiate NAFTA with a provision

for final Congressional approval, but without the opportunity for crippling amendments by special interests. We believe that the U.S. trade representatives need the opportunity to negotiate the best overall agreement possible, without the micro-managing by special interests that could occur if "fast-track" authority is not extended.

We have set forth below a description of (i) the optimism and enthusiasm about NAFTA that is emanating from the central Rocky Mountain region; (ii) our summary of the profound changes that have occurred in Mexico since President Salinas de Gortari took office in the fall of 1988; and (iii) five discrete reasons why "fast-track" authority is imperative, including the potentially devastating effect that failure to negotiate and conclude NAFTA could have on stability and our long-term relationships with Mexico, our neighbor to the south.

Optimism in the Rocky Mountain Region

Holme Roberts & Owen is a large law firm located in the heart of the Rocky Mountain region, with offices in downtown Denver, the Denver Technological Center, Colorado Springs, Boulder and Salt Lake City, Utah. In our capacity as counselors and advisors, we represent a large number of clients, a number of whom have a long-term interest in Mexico. In addition to client representation, we believe that the focus of the Rocky Mountain region should be north and south along the Rocky Mountain ridge, i.e., along the "cordillera." A natural north-south nexus connecting Mexico, the United States and Canada provides this area and our community with a very significant economic development opportunity.

Indeed, Mexico is highly accessible from the United States, and particularly from the Rocky Mountain region. Its potential is enormous, but still largely untapped. Mexico's physical characteristics alone make it a unique and highly attractive market for the United States. It has a 2,000-mile contiguous border with the United States, a land mass equal to 25 percent of the 48 contiguous states, a temperate climate, a spectacular 6,500-mile coastline, a wealth of natural resources, and a population of over 90 million (52% of whom are under the age of 19).

The natural nexus along the Rocky Mountain ridge, coupled with the physical proximity of Mexico, has resulted in several significant developments in Denver. In October, 1990, the Honorable Federico Pena, Mayor of the City of Denver,

accompanied a trade delegation of approximately 30 businessmen and women from the Rocky Mountain region to Mexico City. While in Mexico City, Mayor Pena and the Denver-based delegation met with President Salinas de Gortari, Dr. Herminio Blanco, Lic. Jaime Serra Puche and others. Upon returning to Colorado, Mayor Pena and various members of the trade delegation created the Colorado Advisory Council on Mexico ("CACM"). At CACM's inaugural meeting in January 1991, Roger Wallace from the U.S. Department of Commerce spoke to 115 businessmen and women from the Rocky Mountain region who attended a luncheon on less than five days' notice. Since January, CACM membership has grown to approximately 300 individuals, each of whom have a focused interest in Mexico.

In February 1991, an historic event took place in Denver, Colorado. Mining officials from 12 Latin American countries met with U.S. industry and government managers. The purpose of the meeting, hosted by the U.S. Trade and Development Program, was to present a forum for each Latin country to showcase recent changes in its mining investment climate. Included among a distinguished list of speakers was Mexico's Undersecretary of Mining, Mr. Alfredo Elias Ayub, who discussed Mexico's mining reforms.

On March 20, 1991, the MIT Enterprise Forum of Denver hosted an evening conference entitled "Doing Business with Mexico." Lic. Jorge H. Amigo, the Director of the Mexican General Directorate of Foreign Investment, addressed more than 200 businessmen and women. The next day, at CACM's March 1991 luncheon meeting, Lic. Jorge Amigo and Mr. Roger Wallace addressed another 192 individuals. With an overlap of attendance of only 30 people at the March 20 and March 21 events, more than 350 Denver area businessmen and women acknowledged their interest in Mexico in less than 14 hours.

Finally, as your hearings commence, the Center for the New West together with the Miguel Aleman Foundation in Mexico City and the Fraser Institute in Vancouver are sponsoring a seminar entitled "North America: A Continent Ascendent." More than 200 individuals have confirmed their attendance and interest in this important conference, the focus of which is to address changes in institutional relationships across borders that will be necessary when NAFTA becomes a reality. As a direct result of interest in the activities of the Center for the New West, the Council on North American Cooperation has been created, the primary

mission of which is to foster, develop and educate people about NAFTA and the extremely synergistic effects it will have on Mexico, the United States and Canada.

In sum, our law firm, a number of our clients with existing businesses in Mexico, new clients with an increased interest in doing business in Mexico, the Colorado Advisory Council on Mexico and the Denver community as a whole are hopeful that NAFTA can be negotiated and concluded. We are optimistic and enthusiastic about the beneficial effects that NAFTA will have on Canada, the United States and Mexico.

Recent Changes in Mexico

On December 1, 1988, Carlos Salinas de Gortari became the 15th man to peacefully assume the Mexican presidency since the 1910-20 Revolution. Despite substantial questions among commentators regarding how effectively President Salinas would perform at the helm of the Mexican government, profound and unprecedented changes immediately began taking place in Mexico. All of these changes were conceived, directed and carried out by President Salinas and his administration. While still tentative, the startling transformations offered the hope of stabilization and economic recovery within the country and, concurrently, of significantly expanded opportunities for trade with the United States and the rest of the world. By the spring of 1991, the changes effected by the Salinas administration not only have accelerated greatly, but also have taken firm hold. Many of these changes have been well publicized. However, the following list of events and transformations bears repeating:

* Pollution control has become a national priority. Significant advances include, among others (i) the closing of the "18 de Marzo" refinery in Mexico City, which closing will cause Mexico to become an importer of gasoline; (ii) the Hoy No Circula program in Mexico City (one day per week without an automobile); (iii) new regulations encouraging the substitution of gas for fuel oil; (iv) requiring installation of emission controls equipment in automobiles and factories (factories must install scrubbers or adopt cleaner technology); and (v) use of fuel additives to enhance combustion efficiency at high altitudes.

* Significant moves toward a more representative democracy, including greater freedom of the press and the election of Ernesto Ruffo as governor of Northern

Baja, California, the first non-member of the PRI (Mexico's ruling party for the last 60 years) to be elected governor of the state.

* Significant crackdowns on corruption, including the arrest and jailing of one of the most powerful men in all of Mexico, i.e., the head of the PEMEX union.

* Privatization of almost 900 of the 1,155 "parastatal" businesses previously owned and run by the government, including the airlines, the telephone company and, in the very near future, the banks.

* Inflation currently is between 25 and 30% per year, which rates reflect a substantial decrease from the run away inflation (e.g., 150 to 200% per year) of the previous decade.

* 1990 trade figures have not yet been released. However, the value of 1989 Mexican exports to the U.S. was $35bn and the value of 1989 U.S. exports to Mexico was $30bn. As a result of these trade levels, Mexico is the number three trading partner of the U.S., and the U.S. is the number one trading partner of Mexico.

* Significant liberalization of the regulations implementing the foreign investment law.

* Mexican labor's now excellent (and steadily improving) reputation for high production levels and equally high quality work.

* The systematic abolition of protectionist import licenses, which now cover only 3% of import categories, and the reduction of import tariffs to an average of only about 10%, with a maximum tariff of approximately 20% (vs. 100% in 1982).

* The restructuring, pursuant to the "Brady Plan," of Mexico's external debt, making it more manageable for the foreseeable future.

* The enactment in January 1990 of new regulations facilitating the registration of technology being transferred to Mexico from abroad.

Why the Extension of "Fast-Track" Authority is Imperative

As noted above, "fast-track" authority allows the Executive Branch to negotiate NAFTA, among other trade agreements, with a provision for final congressional approval, but without the opportunity for crippling amendments by special interests. In effect, denial of "fast-track" authority is tantamount to preventing NAFTA from ever coming into existence. Not surprisingly, special interests within the United States are already advocating and politicizing the notion that NAFTA is not good for the United States. However, the five reasons discussed below demonstrate why we must enter into and conclude NAFTA with due haste.

First and foremost, regional stability is at issue. With a 2,000-mile contiguous border separating the United States and Mexico, the stability of U.S.-Mexico relations should be a matter of significant concern to Congressional representatives. The United States and Mexico traditionally have disagreed over how to manage trade in agriculture (wheat, grain, beef and several produce items), textiles and steel, among other things. Currently, the United States manages trade relations with Mexico in these sensitive areas through disparate agreements that have the effect of restraining trade. Moreover, notable members of the U.S. Congress have indicated that further trade restraints are necessary or required.

Mexico's approach to trade with the United States is somewhat different. Since its accession to the General Agreement on Tariffs and Trade in 1986, Mexico quickly has become one of the most open markets in the world. In fact, Mexico's average tariff rate is less than that in the United States. President Salinas has taken bold steps to enter into a partnership with the United States through NAFTA. Gone are the days when the curse of Mexico was "so far from God and yet so close to the United States." Indeed, President Salinas, who is one of the most enlightened Mexican Presidents to assume office in recent history and a popular leader worldwide, has staked his reputation and political future on establishing long-term relationships with the United States and Canada. Mexico believes that its people and industries can and will compete effectively and efficiently in the global marketplace.

The bottom line is that the United States has an historically unprecedented opportunity to stabilize trading relationships with Mexico. If the United States ignores this

opportunity, the tension in regional relationships will significantly increase. Rejection of NAFTA by the United States will be interpreted in Mexico and by many U.S. citizens as a slap in the face of President Salinas. Unfortunately, neither a politically weakened Salinas nor increased regional tensions will advance the best interests of either the United States or Mexico.

Second, the question we most frequently receive from our clients is "what assurance do U.S. business interests have that the recent changes in Mexico are lasting changes?" Until now, President Salinas has readily amended and liberalized the regulations governing foreign investment, in-bond manufacturing facilities and the rules for the registration of agreements that transfer technology to Mexico from abroad. However, the laws that the regulations are designed to interpret and implement are antiquated and restrictive. The concern is that when President Salinas departs from office, the next President of Mexico will revert to restrictive regulatory implementation. Entering into and concluding NAFTA solves this potential problem. Under Mexican law, a treaty supersedes any and all laws (except the Mexican constitution) that otherwise would govern the subject matter addressed in the treaty. Just as President Salinas has encountered difficulty in modifying antiquated laws (despite compelling reasons for doing so), his successors undoubtedly will encounter similar difficulties in overriding NAFTA. As a result, NAFTA will assure businessmen and women that President Salinas' valiant attempts to bring Mexico into the new world economy will succeed. However, without NAFTA it is unclear whether the profound changes that have taken place in Mexico will be permanent.

Third, the international competitiveness of the United States is at stake. The newly-formed European Community will take advantage of low cost manufacturing capabilities in eastern Europe. Japan has done the same in Korea and Taiwan. As many commentators have stated, Mexico is North America's regional opportunity. See, e.g., Walsh Sanderson & Hayes, Mexico -- Opening Ahead of Eastern Europe, Harv. Bus. Rev., Sept.-Oct. 1990, at 32. In fact, there is a natural demographic fit between the United States and Mexico. Already, the United States is experiencing a shortage of labor in medium and low-skilled jobs. Mexico provides the United States with a ready source of medium and low-skilled labor. The only real question in this regard is where the Mexican labor force will be employed -- in the United States or

Mexico. As President Salinas stated: "Without the free trade agreement, you will witness millions of Mexicans crossing the border looking for work." Fraser, Bush and Salinas unite behind US-Mexican free trade effort, Fin. Times (London), April 8, 1991, at 5. Mexico, on the other hand, desperately needs technology. Businesses in the United States provide a ready source of technology for an emerging market. The critical inquiry is whether the United States can remain competitive in the increasingly global marketplace for goods and services if NAFTA is not enacted.

Fourth, critics of NAFTA, notably organized labor in the United States, maintain that NAFTA only transports jobs south of the border. This view is shortsighted. The vast majority of companies that move operations to Mexico already have made a corporate business decision to transfer their manufacturing offshore, i.e., outside of the United States, in order to remain competitive. In these cases, many companies that choose Mexico as an offshore manufacturing site actually retain jobs in the United States that would not be retained if that manufacturing was moved to Eastern Europe or the Far East. See, e.g., Hearings Before the Subcomm. on Trade of the House Ways and Means Comm., 101st Cong., 2d Sess. (June 14, 1990) (statement of Rudiger Dornbusch of the Massachusetts Institute of Technology) (excerpts of Mr. Dornbusch's statement are attached to this statement as Exhibit A); see also Holstein, Woodruff & Borus, Is Free Trade with Mexico Good or Bad for the U.S.?, Bus. Wk., Nov. 12, 1990, at 112 (the Packard Electric Division of General Motors, Navistar and Allied-Signal's automotive parts unit in Southfield Michigan all maintain that affiliation with Mexican operations has preserved jobs that otherwise would have gone offshore entirely).

Finally, NAFTA presents a tremendous market opportunity for U.S. and Mexican businesses alike. With the advent of NAFTA, the standard of living of the Mexican worker will increase. The Mexican population has a demonstrated capacity, willingness and desire to purchase goods manufactured and marketed in the United States. As the 90 million Mexicans become more wealthy, their purchasing power and ability to purchase more U.S. goods increases.

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Conclusion

NAFTA will have an overall positive effect on Canada, Mexico and the United States. Ultimately, each country will benefit as growth occurs -- the wealth and prosperity of all involved will increase. Failing to extend "fast-track" authority, which is tantamount to turning down free trade with Mexico, may be devastating to President Salinas and ultimately will permanently damage our relationships with Mexico.

Again, we thank the Committee on Ways and Means for this opportunity to express our views on the importance of the extension of "fast-track" authority and the negotiation and execution of the North American Free Trade Agreement. We also would like to reserve the right to submit further comments by Friday, April 19, 1991 for inclusion in the public record.

Very truly yours,

HOLME ROBERTS & OWEN

By: James E. Bye
James E. Bye

and

By: Eric D. Miller
Eric D. Miller

EDM/ADI

EXHIBIT A

Excerpts of the Testimony of Rudiger Dornbusch, Massachusetts Institute of Technology, before the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, June 14, 1990

The US should seek an ambitious trade liberalization with Mexico, assuring that the ground is laid for a North American Free Trade Area by the year 2000. A broadening of the markets for US goods, and rationalization of production which can bring in low costs of American products are vital ingredients in sustaining goods jobs in the United States. There are some costs in opening trade, but the balance of benefits is entirely dominant.

Trade is not always a problem, it also affords opportunities. Trade can be a two-way street and the advanced countries in Europe have rightly focused on their export opportunities in Greece, Spain and Portugal and now in Eastern Europe rather than being mesmerized by the threat of rising imports. US policy makers should look at Mexico above all as a market, not as a trade threat. The sharp rise in our exports in the past two years makes this point: following the dismantling of Mexico's near total protection, our exports increased by $10 billion.

We do have an interest in Mexico's prosperity because the country sits in our doorsteps and if economic works out poorly presents a security issue. We also must recognize that Mexican prosperity helps us directly in two tangible ways. First, Mexico spends 15 cents out of every extra dollar income on our goods while Asia spends almost none. Next, if Mexico's economy is depressed, waves of immigration will continue into the US, building up unmanageable problems. But if Mexico prospers migration tapers off or at least assumes less dramatic proportions.

For Mexico an ambitious trade deal could become the level for the much awaited return of flight capital. Of course, for Mexico trade opening is politically loaded. But a trade pact, unlike unilateral trade liberalization, demonstrably creates jobs, and it may work to bring in scarce foreign exchange. That is why it is a worthwhile gamble at this time; if the money does not come back stabilization may unravel and Mexico's opposition will gain the upper hand, undoing much of the accomplishments of the past few years.

Perhaps as much as $50 billion in flight capital are eagerly awaiting in Miami, Brownsville and Switzerland the final signal to go home. Following the Brady Plan and domestic reform further good news can come on the trade front where our barriers to Mexico's exports (steel, glass, automobiles, textiles, agriculture, etc.) limit its ability to earn foreign exchange. Better access to the US market makes Mexico an attractive investment location relative to competitors in Asia. The mere prospect of a major trade deal would work on confidence and on investment.

We have an interest in a rapid consolidation of Mexican economic stability. A return of flight capital would finance much higher growth and with that a much better prospect for transition to an open political system, middle-of-the-road and with a basic acceptance of capitalism, markets and efficiency. We are trying to bring about such regimes in Eastern Europe, much closer to home we only need to help put the finishing touches on a reform program that is going exactly in a direction which most Americans find congenial.

Free trade with Mexico is controversial. Among the key issues it raises are three:

* Will US labor interest be hurt?

* Does the negotiation of a free trade agreement with Mexico undermine the traditional US policy stance favoring an open, multilateral trading system?

* Is Mexico sufficiently stable, and is Mexico accepting and welcoming the US as partner to warrant the closer ties implied by a free trade agreement?

A good case can be made that on each of this issues a free trade agreement with Mexico makes sense. We review these main questions in turn and also a few subsidiary ones.

* DOES A FREE TRADE AGREEMENT WITH MEXICO HURT US LABOR?

The most powerful argument in the US against a trade pact is concern for US jobs. Free trade with Canada might be acceptable because their wages are much like our own, if not a bit higher. But Mexico is a low wage country--manufacturing wages of $1.90 per hour in Mexico compared to $14.50 in the US. With such a wage differential, and a far smaller productivity gap, jobs would risk going south, yet further eroding the US

manufacturing potential. US manufacturing employment in 1989 had fallen 7 percent below the levels of a decade ago. Would free trade with Mexico not present the realistic risk of an acceleration of job erosion in the US?

True, some jobs would go south, but they would go south rather than going off to Asia as they have in the past. The choice is not so much to keep jobs here or lose them to Mexico. Competition from low wage countries has been on for more than a decade. The US trade balance in manufacturing has shifted dramatically in the 1980s as shown in table 1.

Table 1 U.S. manufacturing Trade With Developing Countries (Billions of Dollars)

	Exports	Imports	Balance
1981	67.3	39.1	28.4
1988	78.0	108.8	30.8

Notwithstanding pressures for protection Congress has chosen to keep trade substantially open. As a result import penetration especially from Asia has been very powerful. It stands to reason that Congress will stay with the same principles and policy in the future, resisting protection and betting on the proposition that an open trading system serves the US interests best. If that is the case, the right question to ask about free trade with Mexico is whether we should prefer that when jobs do go abroad that they go South rather than to Asia.

From a narrow US economic interest there is a strong reason to prefer job losses to Mexico than to Asia. There are two reasons for this. First, when a particular manufacturing operation goes south it creates jobs and incomes in Mexico with potentially significant multiplier effects going beyond manufacturing to the entire Mexican economy. But when Mexico grows, a substantial portion of the extra income is spent on US goods and services. No precise estimates are available, but it might be as much as 15 cent of every extra dollar of income. The extra spending might be for agricultural goods, capital goods, professional services or consumer goods. In every category the US has the extraordinary advantage of proximity, not only geographic but much more powerfully through communications, advertising and business culture. As a result job losses to Mexico are significantly recaptured in the form of extra export incomes.

The foregoing discussion is far too pessimistic in that it suggests that job losses are a reality even if they have a silver lining. In fact, there is no presumption at all that there will be net job losses. The process of rationalization in a wider market will in itself create new jobs in US exports industries to Mexico. Besides, trade integration with Mexico is essential to support a more cost competitive US manufacturing sector. In many industries tasks need not be accomplished all in the same location. Parts production and assembly can take place where each is most advantageous. Drawing low-wage Mexican labor into our operations helps reduce costs and creates room to pay high US wages for the remaining tasks.

The fact that US firms can draw on Mexican labor for part of their operation (while immediately causing job losses) also means that goods can be produced in the US rather than going entirely offshore. This process certainly implies net job gains against the alternative of increasing import penetration. Beyond that, integration with operations in Mexico will make the US export competitive even in third markets.

Moving beyond the direct labor market effects of trade creation and trade diversion, I am confident that in the context of a free trade agreement, once the capital reflow comes underway, Mexico will in fact start running substantial trade deficits for the next decade. The lack of investment in the 1980s and the now depressed living standards will give way to a major upward adjustment in Mexican spending. Mexican wages will rise, the internal market will expand and a good part of the extra demand will spill over to the US in orders for our export industries. That is not true for each and every sector, but it does fairly represent the picture for the US labor market at large and even for manufacturing. By the year 2000 Mexico will have 100 million consumers all ready customers for US goods. In fact, the dramatic increase in US exports in the past two years already suggests an extraordinary potential for US exports.

The European experience with the integration of Spain, Portugal and Greece into the Common Market shows just how dramatically both groups of countries benefited from the integration: the poor countries obtained financing to run trade deficits and the large countries acquired markets in which to sell their goods (note that the wage discrepancy between Portugal and Germany is virtually identical to that between Mexico and the US). There is not the slightest indication in the European experience that either party would want to return to the trade relations they had prior to integration.

Even with an optimistic assessment of the labor market effects of US, there are adjustment issues to be considered. Specifically, a trade agreement

should, of course, be phased in over time. This avoids extreme disruption without prejudicing the ultimate outcome. It does not make much difference whether the period is 5 or 10 years; perhaps the best position is to declare that the process is full and complete by the year 2000.

Next, there is no question that in specific industries the adjustment assistance is fully justified. The consumer at large, and the export industries, are beneficiaries of the trade opening but particular workers will be displaced. It is appropriate for society to compensate the losers with a serious adjustment assistance program that dampens the shock and promises to put displaced workers rapidly into attractive alternative employment.

THE PROCTER & GAMBLE COMPANY
CORPORATE PURCHASES DIVISION
[illegible] GAMBLE PLAZA, CINCINNATI, OHIO 45202 1114

April 19, 1991

The Honorable Dan Rostenkowski
Chairman, The Committee On Ways And Means
U. S. House of Representatives
1102 Longworth House Office Building
Washington, DC 2051

Subject: HEARING ON EXTENSION OF FASTTRACK TRADE AGREEMENT IMPLEMENTING AUTHORITY

Dear Mr. Chairman:

The Procter & Gamble Company strongly urges extension until June, 1993 of the "Fasttrack" process for ratifying or rejecting trade agreements without amendment and within defined time lines.

In order for the President to reach agreements that are in the American national interest, he and his representatives must be able to "close" negotiations with our trading partners. If other countries are concerned that agreements can be modified later on, they will be unable to agree to the politically difficult concessions necessary for them to open markets to us, to remove trade distorting practices that damage our economy, and to ensure adequate protection of our intellectual property.

This procedure provides for active Congressional involvement, including its agreement to proceed with negotiations, active consultations as they are undertaken, and active participation in the drafting of the implementing legislation. This Company recognises the importance of this Congressional involvement, since it has benefited from it in the past and therefore looks forward to its continuation.

The Omnibus Trade and Competitiveness Act of 1988 contemplated this extension if sufficient progress had been made during the course of the Uruguay Round negotiations. Final agreements have not yet been achieved in the areas of critical importance to us, i.e. investment, market access and intellectual property protection. Nevertheless, progress has clearly been made and there is sufficient basis for anticipation of sound agreements, after further tough bargaining, that the extension should be granted.

Similarly, Fasttrack is needed for negotiation of a free trade agreement with Mexico. The analyses made by the International Trade Commission, Peat Marwick, the University of Maryland for the Labor Department, and at the University of California at Berkley indicate that a Free Trade Agreement between Mexico and the United States will enhance the economies of both countries, including increasing the demand for skilled and unskilled labor in this country.

Our own business experience supports these studies. Our exports to Mexico have increased 50% over the past three years, reflecting the trade barrier reductions instituted by Mexico in its GATT accession. As a result the number of jobs in this country supporting these exports has increased by 50% to 1500 on the basis of the standard of Department of Commerce criterion of one job per every $46,200 of exports. Our studies of the business opportunities that a free trade agreement with Mexico will create for us shows that the number of U. S. jobs required to support exports to our Mexican business will more than double to a net total of over 3500 jobs.

A free trade agreement with Mexico is also an essential building block for a Western Hemisphere Free Trade Agreement. We believe that such an agreement is both important to our business and to the strengthening of American competitiveness. This country must increasingly compete with a European Community that is expanding rapidly in terms of geographic size, economic integration and economic growth. In a somewhat different way, Japan is building a broader and deeper economic base in Southeast Asia. If the United States is unable to achieve similar economic integration in the Western Hemisphere, we will lose the economic efficiencies and strengthened economies of scale that are critical to our meeting this competition and therefore to our economic future.

Thank you very much for this opportunity to submit our views.

Very truly yours,

David J. Elliott
Associate Director
International Trade

DJE:mcm(1431U)

Before the
WAYS AND MEANS COMMITTEE
HOUSE OF REPRESENTATION
April 12, 1991

PREPARED TESTIMONY OF ROBERT J. KLEINHANS
EXECUTIVE DIRECTOR, TILE COUNCIL OF AMERICA,
ON BEHALF OF UNITED STATES MANUFACTURERS
OF CERAMIC TILE

My name is Robert J. Kleinhans. I am the Executive Director of Tile Council of America, Inc., of Princeton, New Jersey, which is the trade association of American ceramic tile manufacturers. Tile Council's twenty-two regular members produce some 70% of the ceramic tile made in America today. Our associate members are suppliers of equipment and raw materials to the industry.

I am very pleased to take this opportunity to comment on President Bush's proposal to begin bilateral free trade negotiations with Mexico. While our industry certainly does not oppose free trade negotiations, we are concerned that such negotiations must cover a range of important issues beyond mere bilateral tariff cuts. While Mexico has made some progress in recent years, there are still very substantial structural problems in the Mexican economy and industry which, we believe, must be eliminated or effectively neutralized before the United States agrees to reduce its tariffs on imports from Mexico. I will address each of these in my testimony today.

I. SUMMARY

The American ceramic tile industry is not inherently opposed to free trade negotiations with Mexico under Congressional "fast track" procedures. But any agreement with Mexico must eliminate, or effectively neutralize, at least the following types of trade-distorting activities:

-- Subsidized loans and grants. These have been already found illegal under existing U.S. countervailing duty law.

-- Natural resource subsidies in the form of preferentially-priced fuel and electricity.

-- Subsidized transportation for exports, most commonly by truck, within Mexico.

-- Inadequate protection of worker rights, including the right to organize and to earn a living wage.

-- Inadequate protection of worker health and safety.

-- Inadequate environmental protection, including the widespread release of untreated toxic waste.

In addition, any agreement should contain a rule of origin similar to that in the present U.S.-Canada free trade agreement, requiring that any product eligible for preferential tariff treatment must have been fabricated entirely in the country of origin.

II. THE AMERICAN CERAMIC TILE MANUFACTURING INDUSTRY

The American ceramic tile industry consists of about fifty manufacturers, plus a large number of small "handicraft" tile makers, located throughout the United States. (Exhibit A) This industry, for decades, has faced a pattern of unfair and trade-distorting practices by foreign governments and manufacturers, and has been expressly recognized as an import-sensitive industry by Congress and successive Administrations. Import penetration -- the ratio of imported ceramic tile to American-made ceramic tile sold in this country -- has risen steadily to about 56%. (Exhibit B) However, despite the fact that imports have captured more than one-half of the market, the American ceramic tile manufacturing industry remains viable and competitive, and has made very substantial investments in state-of-the-art technology and manufacturing facilities. This industry is certainly capable of competing with any foreign manufacturer on a level playing field.

III. U.S.-MEXICO TRADE IN CERAMIC TILE

Historically, Mexico has been a major source of U.S. ceramic tile imports, and also has been a major export market. However, from 1980 until it became a GATT signatory, Mexico imposed an embargo on all ceramic tile imports from the United States. While that embargo has, at least officially, now been lifted, U.S. exports of ceramic tile to Mexico remain at depressed levels. The Mexican ceramic tile industry also is heavily subsidized by the Government of Mexico. As a result, not only do imports from Mexico receive "bounties or grants" in violation of U.S. countervailing duty law, but also Mexican ceramic tile manufacturers have been induced to construct substantial excess manufacturing capacity, far in excess of Mexican domestic demand. As a result, there is a very substantial bilateral trade deficit in ceramic tile.

U.S. imports of ceramic tile from Mexico are increasing at a rapid rate, even without a free trade agreement. In the five years from 1986 through 1990, annual U.S. imports of ceramic tile from Mexico nearly tripled, from 30.7 million square feet to an estimated 85.1 million square feet. Mexican ceramic tile accounted for 14.4% of all U.S. ceramic tile imports during the first three quarters of 1990, up from 6.3% of U.S. imports in 1986. During 1990, Mexican ceramic tile was imported at a rate more than 20% over 1989 levels. Ceramic tile from Mexico undersells American ceramic tile by a significant margin, even including freight, insurance, and duties; and also undersells ceramic tile imported from most other countries.

In dollar terms, during the first nine months of 1990, U.S. exports of ceramic tile to Mexico were valued at $516,003, while U.S. imports of ceramic tile from Mexico were valued at $40.1 million. This amounts to a ceramic tile bilateral trade deficit with Mexico of some $39.6 million over nine months, or $52.8 million on an annualized basis.

IV. SPECIFIC OBJECTIVES OF A MEXICO FREE TRADE AGREEMENT

We submit that, before U.S. tariffs are reduced, any free trade agreement with Mexico must achieve the following specific objectives.

A. Eliminate Subsidized Loans and Grants

The U.S. Department of Commerce has determined that Mexican ceramic tile manufacturers continue to receive illegal bounties and grants in the form of tax subsidies and illegally

subsidized loans. The countervailing duty order against ceramic tile from Mexico, originally entered in May, 1982, initially found that these subsidies were granted at the rate of 15.84%. Subsequent determinations in administrative review proceedings confirm that these illegal subsidies are still being provided today. Any FTA must provide for the elimination of such subsidies. It is not sufficient just to continue the present countervailing duties. That would allow Mexican ceramic tile makers to continue to receive government subsidies for their domestic market, and would deprive American manufacturers of the opportunity to compete on equal terms in Mexico. The United States should insist that Mexico abolish all trade-distorting subsidies, including "domestic" as well as "export" subsidies, so that the American industry can have full access to the Mexican market.

B. Eliminate Natural Resource Subsidies

The Government of Mexico for years has provided natural gas -- the fuel almost universally used in ceramic tile manufacturing -- fuel oil and electricity to Mexican plants at preferential prices that amount to only a small fraction of the fair market price. Although this government practice has exactly the same economic effect as a cash subsidy, the U.S. Government to this point has not imposed countervailing duties against such "natural resource subsidies," and they continue to provide Mexican ceramic tile manufacturers with an enormous unfair cost advantage. This trade-distorting advantage must be effectively eliminated before U.S. tariffs are reduced. This could, we submit, be accomplished by insisting that the free trade agreement cover trade in energy in all its forms and prohibit all discriminatory energy pricing. This would not require the Government of Mexico to give up "sovereignty" over its energy resources. The Government of Mexico could continue to own the energy resources as long as it was committed to sell them on truly equal terms to all U.S. and Mexican buyers.

C. Eliminate Subsidized Transportation

Ceramic tile from Mexico is most frequently delivered to the United States by truck. There are numerous instances when Mexican exports to the United States, especially including ceramic tile, have been delivered to the U.S. border for a low or nonexistent freight charge. The Mexican transportation and trucking industry must be placed on a competitive market footing as a pre-condition to any FTA. This is particularly important to the U.S. ceramic tile industry, which hopes to expand its exports to Mexico. U.S. manufacturers must be entitled to pay the same shipping price as Mexican manufacturers.

D. Protect Worker Rights, Health and Safety

Working conditions in Mexico are vastly inferior to those in the United States, particularly in the manufacturing industries. While it is to be expected that wages in developing countries are lower than those in the United States, a distinction must be drawn between competitive low wages and wage rates that are depressed because the workers are not allowed to organize or exercise basic rights. Any FTA must guarantee Mexican workers the same basic rights available to U.S. workers. Similarly, workplace safety and health protections must be guaranteed to Mexican workers on the same basis that they are guaranteed to American workers. It is not in the interest of either the United States or Mexico to conclude a free trade agreement that permits the exploitation of Mexican employees.

E. Protect the Environment

Especially in manufacturing industries, environmental protection is often neglected in Mexico. Mexican ceramic tile manufacturers, among others, are guilty of dumping toxic waste into the environment and of generating unacceptable levels of air and water pollution. Any FTA should require adequate environmental protection in Mexico as a pre-condition of U.S. tariff reductions. As in the case of worker rights, health and safety, failing to address these issues in the FTA will create a powerful economic incentive for environmental abuse in Mexico at the expense of American jobs and prosperity.

F. Establish a Proper Rule of Origin

Any FTA with Mexico must include a rule of origin that will ensure that only ceramic tile fabricated in Mexico is eligible for preferential tariff treatment. Tile Council submits that the same rule of origin included in the U.S.-Canada free trade agreement should apply to any U.S.-Mexico free trade agreement. Such a rule would require that, to qualify for national treatment, ceramic tile must be transformed from one 2-digit HTS classification to another. Simplistically, the country of origin is deemed to be the country where the tile body is manufactured. This rule would prevent third-country ceramic tile manufacturers from shipping pre-fabricated tile bodies to Mexico for finishing and packing (which sometimes can result in substantial value added). This kind of two-country manufacturing process already occurs without a tariff incentive. Thus, a fairly strict rule of origin is necessary to prevent abuse of tariff concessions.

V. CONCLUSION

The ceramic tile industry faces some of the more difficult problems involved in U.S.-Mexico free trade negotiations. This is a fairly capital-intensive industry in which Mexican manufacturers historically have undersold their U.S. competitors due to a combination of government subsidies and questionable employment and environmental practices. Also, Mexico has a history of tariff and non-tariff barriers that exclude American tile from the Mexican market. All of these issues must be addressed in order to create a fair and level playing field on which U.S. and Mexican ceramic tile manufacturers could compete fairly. If these problems are fully addressed in the FTA, then Mexico offers a potential market for U.S. ceramic tile exports, and the economic welfare of both countries will improve. However, if any FTA does not address these problems, the result will be a massive transfer of investment and jobs from the United States to Mexico.

Thank you for this opportunity to testify and present the views of the American ceramic tile industry. We would be glad to respond to any questions.

For further information contact:

Robert J. Kleinhans
Tile Council of America, Inc.
P.O. Box 326
Princeton, NJ 08542
(609) 921-7050

EXHIBIT A

PROFILE OF U.S. CERAMIC TILE MANUFACTURING INDUSTRY

Number of Producers	139 1/
Employees	10,000 1/
1989 Shipments	$671,861,000 2/

Principal U.S. Manufacturers

Name	Headquarters	Plants
American Olean Tile Co.	Lansdale, PA	Lansdale, PA Jackson, TN Olean, NY Lewisport, KY Quakertown, PA Fayette, AL
American Marazzi Tile, Inc.	Sunnyvale, TX	Sunnyvale, TX
B & W Tile Co., Inc.	Gardena, CA	Gardena, CA
Claycraft Company (The)	Columbus, OH	Columbus, OH Upper Sandusky, OH
Color Tile Supermart, Inc.	Ft. Worth, TX	Ft. Worth, TX Melbourne, AR Cleveland, MS
Continental Clay Company	Kittanning, PA	Kittanning, PA
Crossville Ceramics	Crossville, TN	Crossville, TN
Dal-Tile Corporation	Dallas, TX	Dallas, TX
Dura Ceramics Inc.	Sun Valley, CA	Sun Valley, CA
El Paso Brick Company	Sunland Park, NM	Sunland Park, NM
Endicott Tile, Ltd.	Fairbury, NE	Fairbury, NE
Epro, Inc.	Westerville, OH	Westerville, OH
Firebird Tiles	Berkeley Hgts, NJ	Berkeley Hgts, NJ
Florida Brick & Clay Co., Inc.	Plant City, FL	Plant City, FL
Florida Tile Div. Premark Int'l, Inc.	Lakeland, FL	Lakeland, FL Lawrenceberg, KY Shannon, GA

1/ Source: USITC, Report to the President on Inv. Nos. TA-503(a)-20 and 332-290, USITC Pub. 2289 (June 1990) at Digest No. 6907.90.00 . 2.

2/ Department of Commerce, Current Industrial Reports Series M32-D (December, 1989)

Name	Headquarters	Plants
GTE Products Corporation	Portsmouth, NH	Portsmouth, NH
Huntington/Pacific Ceramics, Inc.	Fort Worth, TX	Fort Worth, TX
K.P.T. Inc.	Bloomfield, IN	Bloomfield, IN
Kraftile Company	Fremont, CA	Fremont, CA
Laufen International, Inc.	Tulsa, OK	Tulsa, OK
London Tile Co.	New London, OH	New London, OH
Lone Star Ceramics Co.	Dallas, TX	Dallas, TX
Stoneware Tile	Richmond, IN	Richmond, IN
Mannington Ceramic Tile	Lexington, NC	Lexington, NC Mt. Gilead, NC Mt. Vernon, TX
Metropolitan Ceramics Division of Metropolitan Industries, Inc.	Canton, OH	Canton, OH
Monarch Tile Manufacturing	Florence, AL	Florence, AL
Pee Dee Ceramics, Inc.	Marion, SC	Marion, SC
Quarry Tile Company	Spokane, WA	Spokane, WA
Seneca Tiles, Inc.	Attica, OH	Attica, OH
Stonelight Tile Company	San Jose, CA	San Jose, CA
Summitville Tiles, Inc.	Summitville, OH	Summitville, OH Minerva, OH Morganton, NC
Tecnics Ceramics, Inc.	New York, NY	New York, NY
Terra Designs, Inc.	Dover, NJ	Dover, NJ
Texeramics Inc.	Mineral Wells, TX	Mineral Wells, TX
The Tileworks	Des Moines, IA	Des Moines, IA
U.S. Ceramic Tile Co.	East Sparta, OH	East Sparta, OH Houston, MS East Sparta, OH
Universal Quarry Tile	Adairsville, GA	Adairsville, GA
Wenczel Tile Company	Trenton, NJ	Trenton, NJ
Wenczel Tile Company of Florida, Inc.	Tampa, FL	Tampa, FL
Western Quarry Tile, Inc.	Monrovia, CA	Monrovia, CA
Westminster Ceramics Inc.	Bakersfield, CA	Bakersfield, CA
Whitacre-Greer Fireproofing	Waynesburg, OH	Bascom, OH
Winburn Tile Manufacturing Company	Little Rock, AR	Little Rock, AR

Principal Handicraft Tile Makers

The following is just a partial list of American businesses actively involved in the production of handcrafted ceramic tile. This list does not even attempt to include the hundreds, if not thousands, of local artisans and ceramicists who produce handcrafted tile for their local markets. Following this list are some catalogues of handcrafted ceramic tile made in the United States.

COMPANY	LOCATION
Architectural Accents	Basalt, CO
Barbara Beal Studios	Torrance, CA
Clayworks Studio	Austin, TX
Counter Point Tile	Santa Fe, NM
Decoratta Ornamental Tile	Silverdale, PA
De Muth Tile	Napa, CA
Design Tiles	Mifflinburg, PA
Designs in Tiles	Foster City, CA
Epro, Inc.	Westerville, OH
Firebird Tiles	Berkeley Heights, NJ
Fireclay	San Jose, CA
Ron Gooke Studios	Trenton, NJ
Handcraft Tiles	Milpitas, CA
Joe McCarthy Tiles	Greenfield, MA
McIntyre Tile	Healdsburg, CA
The Meredith Collection	Canton, OH
M.E. Tile	Calumet City, IL
Moravian Tile	Doylestown, PA
New England Tile	Volatic, NY
Pewabic Pottery	Detroit, MI
Ron Peake Studios	Holland, IN
Sharon Lane	Santa Rosa, CA
Stone Maus Pottery	Pensacola, FL
Stonelight	San Jose, CA
Summitville Tiles, Inc.	Summitville, OH
Terra Designs, Inc.	Dover, NJ
Timeless Tiles	Shrewsbury, NJ
Totten Marnden Tileworks	Seattle, WA
Westminster Ceramics	Bakersfield, CA

Source: Tile Council telephone interviews, April, 1990.

JANUARY 1991

HISTORICAL ANALYSIS OF ALL TILE
1975 Through Third Quarter 1990

(Measured in Thousands of Square Feet)

Period	Domestic Shipments 1/	U.S. Imports 2/	U.S. Exports	Total Consumption 3/	Import Penetration 4/
1975	256,116	91,752	2,009	345,859	26.5%
1976	277,210	136,072	3,199	410,083	33.2%
1977	264,992	217,898	5,548	477,342	45.6%
1978	301,710	253,897	5,802	549,805	46.2%
1979	312,795	291,577	6,688	597,684	48.8%
1980	297,635	255,412	7,942	545,105	46.9%
1981	287,509	254,658	11,151	531,016	48.0%
1982	295,693	225,780	11,829	509,644	44.3%
1983	334,335	297,498	10,008	621,825	47.8%
1984	337,047	448,405	8,337	777,115	57.7%
1985	369,975	507,429	6,126	871,278	58.2%
1986	440,130	485,877	6,055	919,952	52.8%
1987	462,021	514,162	6,860	969,324	53.0%
1988	488,253	511,312	9,513	990,052	51.6%
1989	510,227	637,075	27,130	1,120,174	56.9%
YEAR-TO-DATE 1990	360,840	442,337	6,921	796,256	55.6%

1/ Due to discrepancies in Commerce Department data, the All Tile domestic shipments for 1975 do not equal the sum of all Mosaic, Glazed and Unglazed Ceramic Tile.
2/ Represents imports of consumption.
3/ Calculated by subtracting exports from the sum of domestic shipments and imports.
4/ Represents imports share of Consumption.

SOURCE: U.S. Department of Commerce, Series M 32D, IM 145X, IM 145, EM 546, EM 522 and FT-410.

JANUARY 1991

ANALYSIS OF ALL TILE IMPORTS, BY COUNTRY 1/
1981 Through Third Quarter 1990

(Measured in Thousands of Square Feet)

Country	1981	1982	1983	1984	1985	1986	1987	1988	1989	YEAR TO DATE 1990
Argentina	42	318	753	760	842	2257	5275	7841	8455	5758
Brazil	6617	4401	14252	24526	36505	35807	36141	34790	38427	25039
Canada	762	4620	1242	551	428	1542	2626	4000	2325	1163
Chile	0	0	0	0	99	25	21	613	2600	1380
Colombia	17	78	197	584	1219	2459	2873	4616	4622	3229
France	1733	1300	1425	1820	3579	2145	2346	1195	2880	1996
Israel	23	263	224	165	675	312	129	282	476	959
Italy	100337	93533	130755	210702	240006	228350	243044	243512	305343	195238
Japan	52221	45730	51595	67598	80268	52729	41967	36660	48339	28144
Korea	21467	17638	13683	15092	9112	14654	13583	17030	13153	6172
Mexico	32243	22547	30036	39740	30986	30780	45617	58638	70748	63788
Portugal	267	2077	730	1040	1385	1877	2075	1901	2298	1661
Spain	19664	18186	27697	43453	45221	48898	58420	58336	77608	62968
Sri Lanka	824	364	981	2000	1526	7017	5739	4516	3192	1491
Switzerland	8	28	320	997	1978	1751	961	229	1130	1093
Taiwan	102	385	2835	10246	14658	14826	14572	7711	2534	3159
Thailand	157	143	734	4601	7029	7963	9324	13339	18109	17167
Uruguay	0	0	652	3929	6220	5754	5009	4248	5600	3181
Venezuela	0	0	13	208	1881	7250	3255	3917	8295	9438
West Germany	8131	8534	9837	12260	16506	9774	7348	5040	6671	4328
Other	10046	5635	9538	8133	7307	9705	9466	7374	10480	4985
TOTAL	254661	225780	297499	448405	507429	485875	509791	515787	637075	442337

1/ Represents imports for consumption.

SOURCE: U.S. Department of Commerce, IM 145.

UNION PACIFIC RAILROAD COMPANY

MICHAEL H. WALSH
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER

1416 DODGE STREET
OMAHA, NEBRASKA 68179

April 17, 1991

The Honorable Dan Rostenkowski
U.S. House of Representatives
Washington, DC 20515-1308

Dear Representative Rostenkowski:

I write to you today in support of a two-year extension of the "fast track" procedures governing negotiation of a free trade agreement between the U.S. and Mexico. We believe such a free trade agreement, if properly structured, would benefit the economies of both nations. We are also convinced that extending the "fast track" procedures is necessary to bring Mexico to the negotiating table.

With the elimination of import duties in a free trade agreement, we should see a significant increase in exports of U.S. oil seeds and grain to Mexico. We also anticipate additional exports of metal products, machinery, and consumer products from the U.S. to Mexico.

We would likely also see an increase in imports of Mexican cement, glassware and produce at competitive prices that should benefit U.S. consumers. We might also see an increase in exports of auto parts to Mexico, and a concurrent increase in imports of assembled automobiles from Mexico. While some would argue that the increase in auto imports would be at the expense of American manufacturers, we think it more likely that the bulk of the increase would be in lieu of production that would otherwise move to the Far East or elsewhere.

We do understand there will be some economic dislocation as businesses, consumers and governments adjust to the new marketplace realities. Nevertheless, with the impending unification of European economics in 1992, we think it vital that the U.S. take the next logical step after the Canadian Free Trade Agreement and negotiate to lower tariffs and other barriers between the U.S. and Mexico. With a reasonable implementation schedule, economic dislocations can be planned for and their impact minimized.

We do believe that, as part of the agreement, negotiators need to press to streamline the procedures for inspecting and clearing goods moving between the two countries. If trade between the two nations grows as we expect it would under such an

agreement, the current procedures and the large fees involved -- which are already presenting problems -- will cause goods to "bottleneck" at the borders.

Extending the "fast track" procedures is essential to concluding an agreement. We do not believe Mexican authorities and the Bush Administration will be able to hammer out the myriad of compromises and details required, if both sides know that Congress can (and likely would) rewrite the agreement once concluded.

Of course, Congress would retain the ultimate authority to reject a bad agreement. That alone should give the Congress leverage to give direction to the Administration in areas where the Congress believes vital issues are at stake.

We hope you will support extension of the "fast track" procedures. Please feel free to contact me if you have questions on this or any other legislative matter.

Sincerely,

Pete Wilson

STATEMENT SUBMITTED BY WILLIAM H. WYNN, INTERNATIONAL PRESIDENT
UNITED FOOD AND COMMERCIAL WORKERS INTERNATIONAL UNION
regarding
EXTENSION OF FAST-TRACK NEGOTIATING AUTHORITY
and FREE TRADE AGREEMENT WITH MEXICO

To the Chairman and Members of the U.S. House of Representatives Committee on Ways and Means:

The UFCW has 1.3 million members organized in some 700 local unions throughout the United States and Canada. The UFCW and its local unions have collective bargaining agreements with tens of thousands of employers throughout the food industry, including retail sales, meat packing, food processing, leather, fur, health, shoe manufacturing and other industries.

Our representation in the food industry -- which is the locus of employment of the majority of our members -- gives us special interest and concern relative to President Bush's recent request to Congress for an extension of fast track authority to negotiate a revised General Agreement on Tariffs and Trade (GATT) as well as a Free Trade Agreement (FTA) with Mexico.

The UFCW supports the stated goal of promoting more dynamic economic growth in the U.S., Mexico and Canada. However, we are concerned that the process and proposals aired thus far are much more likely to lead to deteriorating economic conditions, than to the resurgence that is being promised. The UFCW opposes an extension of fast track authority for both GATT and any proposed Mexico FTA. While the bulk of this statement will speak to the issue of a Mexico FTA, we also believe GATT raises significant issues that deserve greater public scrutiny than is allowed by fast track.

Why Congress Should Deny Fast Track Authority

The UFCW supports H. Res. 101, the resolution of disapproval, sponsored by Representative Byron Dorgan in the House and S. Res. 78, its counterpart in the Senate sponsored by Senator Ernest Hollings.

The fast track process for trade agreements in general constitutes an unwarranted short-cut around one of the fundamental tenets of our democracy -- the right to full and fair debate and choice. Fast track reduces Congress' role to a simple up or down vote on an already negotiated agreement and thereby removes this critical decision and issue from the democratic policy development process. If GATT and a Mexico FTA will have a

significant impact on the American people -- as it is rightly claimed -- then it is reasonable for the American people to have their elected representatives deeply involved in the development of such policy. An extension of fast track authority would deny any opportunity to amend pertinent implementing legislation. Only the patina of democracy with a bare up or down vote on the final package would be permissible.

Although fast track authority was introduced in 1974 ostensibly to facilitate GATT negotiations, succeeding Administrations have successfully negotiated many international agreements without fast track authority. The attached chart of multilateral agreements (researched by Public Citizen) illustrates both the number and range of such agreements. Moreover, it is important to realize that the world, and the position of our nation within it, has changed very substantially in a very short space of time. It is one thing for Congress to delegate the process entirely to the Administration when international trade accounts for a marginal proportion of economic activity. It is entirely different when trade flows account for 10-15 percent of our gross national product, as they do today. Today, significant changes in trade policy as entailed in a Mexico FTA, carry with them major impacts on our economy and society.

The agreements immediately contemplated by the President's request to extend fast track authority -- GATT and Mexico -- could change the face of the American economy, upend the economic lives of our working men and women, affect the safety of the food supply available to consumers, and have profound environmental consequences for citizens on both sides of the border.

An extension of fast track authority would remove Congressional leverage against an agreement that could take the wages of working men and women to the level of the lowest common denominator of signator countries, and, at best, subject our nation's food safety standards, and our environmental controls, to international commissions which may override the high standards we have set for our citizens and our society.

For example, in its capacity as chair of the "Food Safety Coalition" -- composed of a variety of good government and consumer interest organizations -- the UFCW is particularly concerned with the issue of standard setting in the area of food safety. The December 3, 1990 draft of the Uruguay Round of GATT identifies the Codex Alimentarius Commission -- an obscure Rome-based group of international scientists -- as the ultimate standard setting body with respect to food safety. Currently,

its standards permit DDT levels 50 times greater than our government considers safe for human consumption.

In short, if Congress votes to continue fast track, it not only gives up its responsibility to guide and influence trade negotiations, it gives up its responsibility to set policy over an enormous range of domestic issues that vitally affect the quality of life and economic well-being of the nation as a whole.

THE PROPOSED U.S.-MEXICO FREE TRADE AGREEMENT

The proponents of the FTA have characterized it as a "silver bullet" that will miraculously generate faster economic growth in both the U.S. and Mexico. Parallels are drawn between the export-led growth of Taiwan, South Korea and Hong Kong, and between the opening of the European Economic Community (EEC) to its poorer southern neighbors, Spain, Portugal and Greece, as evidence that this will be a "win-win" situation. These analogies are false and inappropriate with respect to U.S. relations with Mexico.

Economic growth in the Pacific Rim countries has largely been founded on exports to U.S.; yet their growth has occurred at the expense of wage and salary growth in U.S. The alleged benefit to consumers of "lower cost" imports is not borne out when we look at the recent history of real wage and salary incomes in the U.S. Low cost manufactured imports have directly supplanted relatively well-paid manufacturing jobs in this country leading to downward pressure on wages and salaries. The price advantage has not compensated for falling incomes as evidenced by the decline, through the 1980s, of the purchasing power of wage and salary incomes. Between 1979 and 1990, the total constant dollar value of wage and salary income has fallen 7.4 percent (from $8.17 to $7.54 an hour).

With respect to Europe the analogy fails in many respects. The EEC is based on a plethora of mutually coordinated policies, including economic, social, education, environmental, health and safety, and workers' rights. The EEC has established funds (European Social Fund and the Regional Development Fund) to address unemployment and the under development of certain regions. At present, it appears that a Mexico FTA is unlikely to address these basic issues. Representatives of the Mexican government have made it clear that they want a completely free hand in these areas and reject their inclusion in FTA negotiations.

Common coordinated policies aside, the economic poverty of Mexico far exceeds that of Greece, Portugal and Spain. The

potential low wage work force represented by Mexico is much larger in comparison to the U.S. work force than is the case of low wage workers in Greece, Portugal and Spain compared to the EEC. To be specific, U.S. trade weighted average wages compared to Mexican weighted wages are approximately 7.4 to 1 while EEC trade weighted average wages compared to Greek, Portuguese and Spanish weighted wages are only 2.2 to 1. Lower wages obviously lead to lower incomes. Mexican consumer income is 10.4 percent of U.S. trade weighted average income while Greek, Portuguese and Spanish income is 39.7 percent of the EEC trade weighted average income.

In short, there is no hard evidence that this will be a win-win situation; a more likely scenario is that the poorest and most vulnerable Mexican and U.S. workers will lose. Indeed, even the most ardent advocates of the deal admit that this will happen. Unlike the EEC, neither the U.S. nor Mexico provides any kind of social "safety net" at all comparable to what is available to adversely impacted workers in either Western Europe or Canada.

The Administration has identified the U.S. food processing industry as one of the sectors most likely to feel the greatest impact from a Mexico FTA. The UFCW represents more than 200,000 workers employed in the food manufacturing industries in the U.S. and Canada. Roughly 16 percent of that workforce is Hispanic, while other minorities groups are also heavily represented. According to a recent ITC report, The Likely Impact on the United States of a Free Trade Agreement With Mexico, USITC Publication 2353, February 1991, the "impact of an FTA on cross-border production and investment is likely to be significant, given Mexico's potential to produce many of the same items as U.S. growers and processors but at lower costs. U.S. investment in the Mexican sector is likely to be concentrated in food processing, considered by many Mexican trade sources as an area of great export potential. Mexico's exports in that sector have recently been growing at an average annual rate of 20 percent."

The ITC report further finds that "the large fruit and vegetable processors, which are primarily in California and the Southwest, are likely to shift investment to Mexico where the same raw product can be harvested and processed at lower costs." In the meat processing industry, the report finds that "an FTA could, in the long term, encourage development of U.S. export-oriented cattle feeding and meatpacking facilities in Mexico, because of lower cost Mexican labor and ready access to U.S. grain supplies and the U.S. market for grain-fed beef."

The actual impact of a FTA will likely be worse than

what is projected in the report. That is because the ITC report assumes incorrectly that American consumers can, and will, explicitly differentiate between American made products and products imported from Mexico. Therefore, the ITC used an economic model of imperfect substitution in analyzing the impact free trade will have on U.S. industries. This tends to make their impact forecasts quite conservative. As U.S. companies move their food processing operations to Mexico with the intent of exporting to the U.S., how are American consumers going to differentiate between a bottle of Heinz catsup or Frito Lay chips made in Mexico versus catsup or chips made in the U.S.?

In our view, the fragile state of the U.S. economy means that we cannot afford to trade away one of the last stable manufacturing industries in the United States. In 1990, approximately 1,649,000 Americans were employed in the food manufacturing industry, representing 7 percent of all manufacturing jobs in the United States. Food processing employment has increased an average 3 percent between 1985 and 1990 compared to less than 1 percent growth in manufacturing industries overall. Furthermore, food processing has been one of the more resilient manufacturing sectors during the current recession. Food manufacturing employment in the last seven months (September 1990 to March 1991) has actually increased .3 percent while manufacturing employment as a whole has been hemorrhaging, losing over a million jobs in the past seven months. Clearly, these figures would be much worse had the Mexico FTA been in place.

In addition, the value added in U.S. food manufacturing has a powerful multiplier effect in adding jobs and incomes in other related sectors. According to the most recent definitive study (David Blanford, et al, "Food Processing Industries and the National Economy," in Economics of Food Processing in the United States, 1988) the employment multiplier effect of food manufacturing is 3.74, compared to an average multiplier of 2.18 for all industries. That means that for every 1,000 food processing jobs transferred to Mexico, there will be 3,740 fewer jobs in the U.S. Moreover, these losses will be disproportionately in rural areas where alternative employment is non-existent. In addition to lost jobs, the national economy stands to lose a significant amount of income through a multiplier effect. The income multiplier for food processing is 3.81. That is, for every dollar of wages lost as jobs move south of the border, the U.S. economy loses $3.81.

A Mexico FTA will certainly reverse the history of job creation in U.S. food processing and related industries. Research has shown that countries with significant wage costs

advantages will attract labor intensive production processes. This has overwhelmingly been the case with the maquiladora program which has largely attracted companies with labor intensive production processes. Although some food processing has shifted from being labor intensive to being capital intensive, many sectors of the industry continue to be highly labor intensive. These sectors are highly sensitive to wage differentials -- as we have found as a result of the Canadian FTA.

Since the implementation of the U.S.-Canada FTA in 1989 Canadian workers have lost thousands of jobs clearly attributable to that agreement. For example, in the food processing industry Hunt Wesson and Heinz, both major U.S. companies, closed food processing facilities in Ontario last year and moved the capacity south to the U.S. - yet the labor cost differential between Canada and the U.S. is miniscule compared to the differential with Mexico. The difference between Canadian trade weighted average wages and U.S. wages is 1.12 to 1, compared to a U.S.-Mexico trade weighted wage differential of 7.4 to 1.

In the food processing industry, American workers earn an average $9.87 an hour compared to an average Mexican wage of $.62, a 15.9 to 1 ratio. U.S. firms supporting an FTA typically note that wages and working conditions in their Mexican plants far exceed the norms. For example, Pepsico boasts that they pay well above the official Mexican minimum wage. Pepsico pays its workers at their maquiladora plant in Tijuana an average $10 a day, including benefits, to produce a variety of chips. In contrast, UFCW members at Pepsico's Irving, Texas plant, 30 percent of them Hispanic and 50 percent of them black, make $9.93 an hour to produce similar chips.

ALTERNATIVE STRATEGIES FOR INCREASING THE WELFARE OF MEXICAN WORKERS

Although we oppose fast track and an FTA that does not address basic workers' rights, food safety, environmental and other critical policy concerns, we are strongly committed to the goal of improving the lives of working men and women in Mexico. Mexican workers have suffered a 40 percent decline in real wages since 1981 as a result of the country's debt crisis and subsequent devaluations of the peso designed to feed their export drive. Thus far, export-led growth has failed to deliver measurable benefits to Mexico's workers. We believe that the Bush and Salinas administrations are putting too much weight on this alleged panacea for Mexico's multiple problems.

The U.S. should take a leading role in assisting Mexico's drive toward economic development. Alternatives to an FTA that would foster economic growth and result in higher Mexican wages and better working conditions include:

DEBT FORGIVENESS - Mexico's external debt stood at $95.6 billion in 1990. Approximately 25 percent of this debt is owed to either the U.S. government or U.S. lending institutions. Many of these institutions have already written off enormous sums of Mexican debt. A debt forgiveness program, similar to programs undertaken recently with Egypt and Poland, could immediately relieve the pressure to maintain an artificially low peso exchange rate and would go a long way in returning the purchasing power of Mexican wages to their pre-debt crisis level.

REGIONAL DEVELOPMENT FUND - The U.S. could create a fund to assist Mexico in developing its poorer regions. This development fund could be used to improve infrastructure, including sewers, water, housing, and education. A development fund could also assist Mexico in developing internal industrial sourcing. Multinational corporations operating under the maquiladora program in Mexico today rely primarily on external sources of raw materials and intermediate goods for production. As a consequence, the bulk of Mexican value-added in maquiladoras represents payments to workers, not the purchase of Mexican inputs or materials.

ENVIRONMENTAL PROTECTION FUND - Establish a fund to assist Mexico in enforcing its existing environmental laws. A binational commission could oversee the program, with oversight of environmental regulations along both sides of the border. Companies fined for violating environmental regulations could partially fund the program.

DEVELOPMENT OF LARGER, INDEPENDENT GOVERNMENT AGENCIES AND LABOR UNIONS - Although the Mexican government has promised stricter enforcement of health and safety regulations, and child labor statutes, it has not done so. Furthermore, strong independent labor unions and public interest groups which could place effective pressure on the government to enforce these regulations don't exist. Even if pressure groups existed, however, the Mexican government lacks the funding and manpower to adequately enforce labor laws. For example, on Monday, April 8, 1991, a front page story in the Wall Street Journal illustrated both points - the deplorable and illegal conditions many Mexican children are forced to work in, and the fact that there are only five government child labor inspectors to oversee 22,000 businesses. The U.S. could provide technical assistance and

funding to assist the Mexican government agencies responsible for enforcement of health and safety, and child labor laws.

Most of these strategies are similar to those undertaken by the EEC. The EEC, under a common market agreement, goes beyond the free trade principle to include funding for economic development, common environmental regulations and cooperative enforcement, and common labor and social policies.

The Mexican Government is not interested in an EEC common market type arrangement. This was made explicitly clear in an address by Mr. Manuel Suarez-Mier, Minister for Economic Affairs at the Mexican Embassy, at a recent Industrial Relations Research Association (IRRA) luncheon. Mr. Suarez-Mier stated that Mexico wants free trade with the U.S., but is not interested in tying environmental protection, health and safety, and workers' rights issues together in such an arrangement.

Unless and until the Administration and Congress can ensure that the concerns of workers, consumers and the environment are fully addressed, an FTA will prejudice the very goals we are being told it is designed to accomplish. We urge the members of this committee to oppose fast track and to support H. Res. 101.

STATEMENT OF RICHARD LITZINGER, VICE PRESIDENT, MEXICAN OPERATIONS, AND ANDY TAKACS, VICE PRESIDENT, GOVERNMENT RELATIONS, WHIRLPOOL CORP., BENTON HARBOR, MI

Whirlpool Corporation, the world's largest manufacturer of major home appliances, has comments regarding an extension of fast track trade agreement implementation authority. Worldwide, we have operations or facilities in 45 countries and employ 45,000 people. This statement is submitted in strong support of the President's request for an extension of Fast Track Trade Agreement Implementation Authority.

Such authority is especially important to Whirlpool Corporation because of our Mexican business interests. In Mexico, we are in a major joint venture company, Vitromatic S.A. de C.V., formed with Vitro, S.A. This venture is one of Mexico's two largest full line appliance manufacturers. The Vitromatic joint venture produces appliances/components at seven manufacturing facilities in Monterrey, Celeya, Puebla, and Mexico City. Vitromatic is also a customer of U.S.-built Whirlpool appliances. Goods purchased by our joint venture partners in Mexico from our U.S. manufacturing base by Vitromatic include refrigerators, freezers, room air conditioners, microwave ovens, ranges, food mixers, automatic washers, dishwashers, and component parts. Goods produced and sold in Mexico include automatic washers, gas ranges, refrigerators, freezers, and various appliance components.

Whirlpool Corporation also has Maquiladora operations in the border cities of McAllen, Texas, and Reynosa, Mexico. These operations constitute important component assembly and warehousing facilities for five major Whirlpool plants in the U.S. which employ 10,000 people.

Due to our involvement with appliance manufacturing in Mexico, passage of a U.S.-Mexico FTA and an extension of fast track authority is of considerable importance to Whirlpool Corporation. In fact, such a FTA compliments our existing corporate structure which includes the North American Appliance Group, that encompasses our facilities in Canada, the U.S., and Mexico. Strong North American operations mean a strong world competitive posture against other major trading blocks located in the Far East and the European Community.

In particular, the synergies that we have developed in our U.S.-Mexican operations will boost our product/marketing successes both domestically and abroad. For example, our Maquiladora operations provide quality components for our domestic production facilities. Further, many U.S.-made components are used in the finished appliance goods which are produced in Mexico and later sold within Mexico and the U.S. Also, we have growing markets for U.S.-produced appliances which are sold through our joint venture company in Mexico.

Our experience illustrates that new jobs are being created in both the U.S. and Mexico. For example, we estimate that there has been the creation of more than 300 jobs in the U.S. because of our business association in Mexico. In addition, a positive trade balance has developed with Mexico. This growth has increased from a positive balance of less than $1 million in 1987 to more than $35 million in 1990. Of importance to the U.S. economy is that these products are the ones where we were losing market share and becoming globally less competitive.

The well-being of our most important asset, our employees, is of paramount concern to Whirlpool Corporation. We comply with all U.S. and Mexican labor laws to ensure this well-being. A U.S.-Mexico FTA will enhance this well-being by improving the buying power of workers and the economies of both nations.

Likewise, environmental issues are of considerable concern to Whirlpool. In the U.S., we have a strong track record of environmental stewardship which dates back many years. Our environmental managers have been meeting regularly for the last 20-plus years to discuss common problems/opportunities and to implement environmentally sound practices. Our most recent meetings have included our environmental managers from Europe, Canada, and Mexico. Future meetings will include representatives from our South American and Asian interests.

We strive to be in full compliance with all Mexican environmental laws, and Vitromatic is committed to bringing its environmental standards in parallel to the U.S. environmental regulations. We will promote a proactive approach to environmental stewardship which has been embraced at all our U.S. operations. In short, a U.S.-Mexico FTA will enhance our ability to accomplish more environmental interface because of greater economic and marketing opportunities that such an agreement will promote.

Our hopes for such a Free Trade Agreement focus on several key issues which have economic, marketing and competitive implications for our U.S. and Mexican interests.

Tariffs - We have several requests:

1) Eliminate quotas under the GSP system for products which we jointly produce in Mexico and market in the U.S. Such imports from Mexico allow us to continue production of selected niche models which we would otherwise cease marketing in the U.S. because of severe competition.

2) Eliminate Mexican tariffs on U.S. supplied components/raw materials which are used in the manufacture of Mexican-built appliances. This will make our products more competitive in both the U.S. and Mexico against Japanese and other foreign appliance manufacturers.

3) Provide a ten-year phaseout of all tariffs for U.S.-built finished appliance products. This will allow Mexican industries the needed time to become more competitive through improvements in plant efficiencies. It will also allow U.S. appliance manufacturers steady tariff reductions for products which they market in Mexico. It would alleviate any shock to the Mexican economic system and the U.S. labor market--allowing both to plan for any changes that may occur.

Codes/Standards - Provisions of a FTA should provide for a return to the Mexican Government's past position of recognizing UL standards. This is especially important for U.S.-built appliances which are later marketed in Mexico.

Protection of Intellectual Property Rights (IPR) - It is important that Mexican laws be enforced and strengthened to provide more protection of U.S. patents, trademarks, licensing agreements and "know-how" (technology). Loose enforcement and lacking government protection of trademarks, patents and trade secrets will be detrimental to U.S. interests and could jeopardize future economic investments on both sides of the border.

Transportation - Several issues are crucial:

1) There should be more freedom for all carriers to operate in Mexico. Competition is limited because of existing

restrictions. In short, U.S. and Mexican carriers should be allowed to conduct business freely on both sides of the border without limitations on equity position in transportation companies or restrictions on operations.

2) Improved procedures, including some form of preclearance, should be implemented in order to speed shipments and cut down on red tape/delays.

3) Visas should be easier to obtain, and household effects of expatriates should be easier to transport.

Conclusion

Whirlpool Corporation endorses a U.S.-Mexico FTA. Such an agreement would benefit both U.S. and Mexico. It would create an unprecedented trading block with 360 million people (with Canada) and would pose a formidable competitive balance to rising economic trading groups in Europe and in the Far East. The combined net effects will be to promote job stability, improve domestic competitiveness, reduce consumer cost, and posture our company for the economic challenges of the '90s and beyond. Extension of fast track authority is crucial to such an agreement. We urge the members of the House Ways and Means Committee to support fast track authority extension.

Thank you for the opportunity to comment. For further information, please contact:

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